

Studying The Flow Of Jobs And Money

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SMU Associate Professor Nicolas Jacquet is a theoretical economist who investigates the forces at work in asset and labour markets. He examines issues such as asset liquidity and the impact of limited enforcement of contracts on the mobility of workers.



AsianScientist (Jul 2, 2014) – By David Tan – Associate Professor Nicolas Jacquet of the Singapore Management University (SMU) School of Economics is a theoretical economist who studies monetary and labour economics. While he writes primarily for an academic audience, his work impacts the way that applied economists and policymakers deal with economic problems.

Professor Jacquet is currently studying the liquidity of assets, i.e., the ability to convert an asset into cash quickly.

“I look at an economic model where there are different assets that can be ranked based on their risk levels, and different investors with a range of liquidity needs. I investigate what this means for the way we perceive asset liquidity, and find that in such a model, asset classes would form naturally,” he describes.

“Agents with greater liquidity needs tend to go for safer assets, while agents with lower liquidity needs tend to go for riskier assets. While that might seem intuitive, proving it is actually not that simple,” he says.

In fact, risky assets are not as illiquid as they look, says Professor Jacquet, whose research has shown that this is actually an artefact, i.e., a spurious observation.

“In the model, all assets are equally liquid but when we look at the frequency of transaction, some assets are transacted more than others,” he clarifies.

“The safer assets are transacted more often than the riskier assets, because the former are being held by the agents with greater liquidity needs. Conversely, the riskier assets are held by agents with lower liquidity needs; therefore, they are transacted less often. So it looks as though safe assets are very liquid, whereas risky assets are not very liquid. But this is actually an artefact.”

The mobility of workers

Another research area that Professor Jacquet studies is the mobility of workers from one job to another. Here, he uses standard techniques to model labour markets and search frictions in order to look at how the enforceability of labour contracts influences decisions to change jobs, “If you already have a job, you would know quite well how good a match it is for you, compared to a job that is newly offered to you.”

Naturally, a worker in a mismatched job would be in a good position to look for a new job as long as the contract he or she has signed with the company is enforced, such as the stipulated salary. On the other hand, if the contract was not enforced, the worker would be in a poor bargaining position when looking for a new job, he explains.

“While some contracts look like they are enforceable, they are in fact hard to verify. The salary may be enforced under the contract, but there are other aspects of the job that the company could change, such as posting location, seating arrangement, etc. Essentially, the company could do all sorts of things to make it unpleasant for one to stay in the job,” he says.

He explains that because it is more difficult to contract on such non-monetary elements, these contracts are essentially incomplete. Hence, applying for a new job is riskier and less attractive than it should be.

Search and matching theory

Professor Jacquet’s research also focuses on search and matching theory. He explains, “Search and matching theory is a mathematical framework to look at markets, such as labour and asset markets, to understand the implications of how these markets work for the macroeconomy. Search and matching theory emphasises the fact that we have imperfect information about markets, and acquiring information is a time-consuming activity.”

One can relate to search and matching theory in his or her daily activities, Professor Jacquet says.

“If you wish to buy a good, you may have an idea of where to find it but you don’t necessarily know the price. So you go to different stores to check out the good and its price. You then consider whether the good matches what you want, and whether the price is acceptable before deciding to purchase it or not.”

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A new project that Professor Jacquet is working on focuses on older workers in the labour market. He is examining why such workers tend to stay in poor-performing industries, and why they stay unemployed for quite some time after losing their jobs.

“I’m looking at how search and matching frictions create imperfections in the labour market, and the impact they have on decisions of older workers to change jobs before it’s too late,” he explains.

Though still in its early stages, Professor Jacquet’s research looks set to shed insights into employment issues faced by older workers, which represent an area of substantial economic significance to countries with rapidly ageing populations.

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