Objective of the paper

Get endogenous propagation mechanism in a standard business cycle model

In particular, hump shape of growth and hours

How?

Learning by doing (LBD)

$$\ln(X_t/X) = \phi \ln(X_{t-1}/X) + \mu \ln(H_{t-1}/H)$$

$$Y_t = K_t^{1-\alpha}(X_t H_t A_t)^\alpha$$

"Labor accumulation"

semantics: Not endogenous propagation

Very similar to nominal wage stickiness.
Ambler-Guay-Phaneuf(1999):

Here: $W_t = W_t^* X_t$

AGP: $W_t = dW_{t-1} + (1-d)X_t$,

$$\ln X_t = dE_t \ln X_{t+1} + (1-d)(\ln W_t + \gamma(\ln N_t - \ln N_t^o))$$

What is to be captured?

The more work experience you have, the more efficient you are

But what are the consequences of $\Delta^+ H$?

- overtime: no new skills
- new hires: adjustment costs
- rehires: no new skills

Of $\Delta^- H$? Is it symetric?

Composition effect: most ΔH is in low skills (Keane-Prasad-1993).

Is the wage the best measure?

Overtime

$w_{i,t} = w_t^* + \sum_{j=1}^{J} \eta_j h_{i,t-j} + \gamma_i + \phi(L)\epsilon_{i,t}$

essentially captures downward nominal wage rigidity.

Estimation

$$\ln(X_t/X) = \phi \ln(X_{t-1}/X) + \mu \ln(H_{t-1}/H)$$

	μ		ϕ	
Priors 1:	0.113	(0.003)	0.843	(0.007)
Priors 2:	0.080	(0.050)	0.700	(0.050)
Results 1:	0.1131	(0.0029)	0.8440	(0.0067)
Results 2:	0.1520	(0.0399)	0.7148	(0.0536)
Results IRF:	0.2649	(??)	0.4471	(??)
Results CORR:	0.3309	(??)	0.3753	(??)