

Employment Policy of A Firm under the Presence of Search Friction

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Abstract

The optimal employment policy of a firm which employs multiple workers under the presence of search friction in the labour market is studied. The vacancy cost function is assumed to be convex as is ordinary adjustment cost functions, so that the adjustment process toward the steady state is not trivial. The optimal policy of the firm employs all job-seekers until it meets its output demand, and then it begins to adjust the distribution of worker types. Its macroeconomic consequence is that, since it interferes the adjustment of unemployment through the change of wage rate, it results in a Keynesian outcome in which the effective demand principle operates.