An extension to the Shimer labour market flow model

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The Shimer (2012) flow model relies on two strong assumptions: (1) workers neither enter, nor exit the labour force, but simply transfer between employment and unemployment, and (2) all workers are *ex ante* identical -- in particular, in any period, all unemployed workers have the same probability of finding a job and all employed workers have the same exit probability.

We extend the model in a way, which enables us to relax the first assumption of Shimer and allows for inflows into and outflows out of the labour market. We define a modified steady state and provide formulas for the adjusted market equilibrium. We illustrate differences between the two models with an empirical example.

Should I stay or should I go. Why Poles became inactive.

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Poland is among the EU countries with the highest share of inactive population which makes the analysis of flows in and out of inactivity particularly important. For this reason, flows that involve the state of inactivity constitute a large share of total flows. Large direct flows between employment and inactivity seem to be an idiosyncratic phenomenon of the Polish labour market.

In this study we examine factors that stimulate the decision to leave the labour market. We intend to separate exits caused by external factors regulated by law (for instance, retirement and serious health problems), those directed by economic conditions (job destruction) and those caused by individual decisions. We concentrate on determinants of voluntary flow into the state of inactivity. Most of the macroeconomic literature related to flows does not consider these factors separately.

We use data from the Labour Force Survey for years 2015-2019. We start with descriptive statistics of the phenomenon, then estimate multinomial model for labour market exit determinant as a base for more advanced model that allows to include characteristics of labour market, that is random parameter logit.