HELLENIC REPUBLIC
National and Kapodistrian
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DEPARTMENT OF ECONOMICS

Research Seminar Series in Economic Sciences, 2022-2023

Speaker: Anastasia Zervou, *Macroeconomist in the Economics Department at the University of Texas at Austin*

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Title: "Heterogeneous labor market response to monetary policy: small versus large firms"

Date & Time: Wednesday, January 18th, 2023, 17:30 - 19:00

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Abstract: We study the heterogeneous effects of monetary policy on the labor market of large and small firms in the United States. We uncover the following facts: (i) Expansionary monetary policy boosts employment and hiring growth in small firms more than in large firms; however, a monetary contraction shrinks small firms' employment and hiring growth less than in large firms. As a result, monetary policy has a countervailing effect on the employment concentration in large firms. (ii) There is an asymmetry in the effects of monetary contractions versus expansions with respect to firms' employment and hiring growth. Not accounting for such asymmetry leads to the fallacious conclusion that small firms respond more than large firms to monetary policy shocks. This asymmetry also reveals that contractionary monetary policy shocks have immediate effects on the labor market while the effects of expansionary shocks are slower to manifest. (iii) The response of employment is weaker than that of hiring, highlighting the importance of using labor market flows. (iv) The growth of earnings of new hires decreases similarly across large and small firms in contractions but reacts more for small firms in expansions. We use a heterogeneous firms model with a working capital constraint, an upward-sloping marginal cost curve, and a financial accelerator effect. We augment this model with the wage effect summarized in fact (iv) and demonstrate how the additional wage effect can explain the differential response of the hiring and employment growth of small and large firms of fact (i).

Organizers: Dimitris Kenourgios, *Professor*
George Dotsis, *Assoc. Professor*
Frago Kourandi, *Assist. Professor*

Thank you.

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