

EDUCATION AND EMPLOYMENT: DO HIRING COSTS MATTER?

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Abstract

A belief that a better-trained workforce will enhance employability of workers at the individual level and thus reduce unemployment at the aggregate level is commonly held. Nevertheless, in reality and especially in developing countries, unemployment rates strongly hit the most educated population. Contrarily to the traditional literature which takes hiring cost as exogenous, we assume that hiring cost is endogenous and proportional to the worker's skill level. By doing so, our model displays a positive relationship linking education and unemployment which agrees with reality.

Keywords: Employment, Education, hiring cost

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