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EQUILIBRIUM DISMISSAL WITHOUT STIGMA[†]

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Abstract

Labor market models in which job separations are a component typically produce the implication that the reason for a job separation (*i.e.*, whether it is considered voluntary or not) is either immaterial in the determination of subsequent labor market experiences of the individual or has long-term stigmatizing repercussions. The model expositied in this paper is consistent with dismissals having real but transitory effects on the wage process of an individual. These effects constitute a punishment strategy pursued by the firm in order to induce optimal effort supplies on the part of its work force. Our empirical results indicate that the probability that a worker will face a punishment period due to an unlucky output draw is substantial. Moreover, it seems that the punishment period lasts for at least three years, a nonnegligible amount of time. Further work is needed to resolve the issue of whether or not the effects of dismissal are indeed transitory or are better regarded as permanent.

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