

ABSTRACT

In this paper we analyze the structure of adjustment costs for labor. In particular the question whether hiring and firing costs are asymmetric is addressed. We maintain the standard assumption of quadratic adjustment costs, but allow the multiplicative coefficient to differ for the firing and hiring regime. The Euler equations for this problem can be combined into a general model that nests the one with symmetric adjustment costs. The model can be conveniently estimated and the parameter restrictions implied by symmetry easily tested. We also extend the model to allow for adjustment coefficients that depend upon macroeconomic conditions and proxies of union strength. In the empirical applications we use a panel data collected by CERIS on fifty two large Italian firms for the period 1958-1988. The general conclusion from the econometric testing is that the hypothesis of symmetric adjustment costs is rejected by the data. There is also evidence suggesting that the adjustment costs parameters are not constant over time.