

Social Interactions, Local Spillovers and Unemployment

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Abstract

This paper investigates whether or not social interactions and information spillovers in an urban context are important in determining one's employment status. I analyze a model which explicitly incorporates local interactions and allows agents to exchange information about job openings within their social networks. Thus agents are more likely to be employed if their social contacts are also employed and can therefore transmit information about potential job opportunities. The model generates a stationary distribution of unemployment that exhibits positive spatial correlations. Simulations of the model allow me to estimate its parameters via an indirect inference procedure. Using geographic distance as a proxy for social distance, I can test the model with Census tract data for the city of Chicago. I find a significantly positive level of social interactions across neighboring areas. This finding is robust to several controls for sorting and unobserved characteristics. The local spillovers are stronger for areas with poorer, younger and less educated workers, and with higher fractions of minorities.

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