

A Model of TFP

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Abstract

This paper proposes an aggregative model of Total Factor Productivity (TFP) in the spirit of Houthakker (1955-1956). It considers a frictional labor market where production units are subject to idiosyncratic shocks and jobs are created and destroyed as in Mortensen and Pissarides (1994). An aggregate production function is derived by aggregating across production units in equilibrium. The level of TFP is explicitly shown to depend on the underlying distribution of shocks as well as on all the characteristics of the labor market as summarized by the job-destruction decision. The model is also used to study the effects of labor-market policies on the level of measured TFP.