

Do plants freeze upon uncertainty shocks?*

Ariel M. Mecikovsky[†], Matthias Meier[†]

This version: April 11, 2016

Abstract

We study the channels through which uncertainty affects real economic activity with a special focus on employment. We establish a set of theoretical predictions about the effect of uncertainty shocks on the creation and destruction of jobs, given the predominance of each channel. Importantly, these predictions rely on sector characteristics. Using data on job flows from the United States decomposed by industry, business age, and business size, we are able to account for these characteristics. We find supportive evidence of financial frictions and aggregate demand as important channels through which uncertainty affects employment adjustment. However, we do not find evidence on the predominance of the real option channel. We construct a general equilibrium model to quantitatively assess the relative importance of these channels, and the resulting effects on output and employment.

Keywords: Uncertainty, real option, labor.

JEL Classification Numbers: J23, J63, D81.

*The research leading to these results has received funding from the European Research Council under the European Research Council under the European Union's Seventh Framework Programme (FTP/2007-2013) / ERC Grant agreement no. 282740 and we are very grateful for financial support from the German Science Foundation through SFB/TR 15 and the Bonn Graduate School of Economics. We wish to thank Christian Bayer, Nicholas Bloom, Rüdiger Bachmann, and Felix Wellschmied for helpful comments and the participants at the Search and Matching Conference, Spring Meeting of Young Economis and MEF Workshop at the University of Bonn.

[†]Department of Economics, Bonn University.