

Wealth Effects and Labor Market Dynamics in International Business Cycles *

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Abstract

In this paper I study several distinct puzzles of labor markets in emerging economies compared to developed ones. In emerging economies 1) wages are more volatile than income, while 2) employment is less volatile and 3) less procyclical than in developed economies. To understand these puzzles I depart from the existing literature and focus on a multi-country framework analysis of labor market dynamics of both emerging and developed economies simultaneously. In contrast to existing literature, I show that strong wealth effects on labor supply in emerging economies can rationalize the labor market puzzles. The model is also consistent with two prominent puzzles of international finance, namely the 1) international risk-sharing puzzle, and 2) the real exchange volatility puzzle.

Keywords: International Finance, Business Cycles, Open Economy, Labor Markets, Emerging Market Economies.

JEL codes: E21, E24, E32, F40, F41, J21, O11

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