

**Abstract :**

In a dynamic open economy model with labor market frictions and entry/exit of firms, we investigate the effects of increased product market competition. We model an endogenous mark-up and look at the effects of both changes in the fixed cost and the cost of entry. Unlike most macroeconomic models of search, we endogenize the labor supply along the extensive margin. As Blanchard and Giavazzi (2003; QJE), we find that lowering fixed cost reduces the steady-state unemployment rate and raises wages. The labor income share in output drops as long as fixed costs are reduced. By contrast, a decreased cost of entry raises the labor share by reducing the markup. We extend the model to allow for the relative price of the domestic good to adjust endogenously. Depending on whether fixed cost or cost of entry is lowered, steady-state employment rate may now fall or rise as a result of the terms of trade adjustment. Furthermore, while competition benefits individuals as workers, a fall in fixed costs can harm them as consumers through its effect on the price level. Importantly, while our results cast doubt about the ability of deregulation policies to lower significantly the unemployment rate, our findings highlight its strong distribution effect between labor income and profits.

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The Center for Research in Economic Analysis of the University of Luxembourg is pleased to invite you to the **Lunchtime Seminar in Economics:**

## Product market regulation, unemployment and labor share

*(joint with Partha Sen, Delhi School of Economics)*

Olivier Cardi

Université Panthéon-Assas Paris 2

**November 23, 2010**

**16:00 – 17:00**

Campus Limpertsberg  
Building of Science – Room BS001  
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Lunch is planned for the participants

Registration: by email to [fdef-colloques@uni.lu](mailto:fdef-colloques@uni.lu)

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