

**Wealth, Reservation Wages, and Labor Market Transitions in the
U.S.: Evidence from the Survey of Income and Program
Participation***

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Abstract

This paper empirically examines the effect of wealth on reservation wages, search intensity, and unemployment spell duration using data from the 1984 SIPP. Many search models predict that higher wealth increases the reservation wage, decreases search intensity and increases spell duration. However, there has been little empirical work examining these relationships. Using a simultaneous equations model, we find that wealth increases reservation wages and decreases the probability of transitioning into employment: a \$10,000 increase in total net worth increases the reservation wage by 3.1% -4.9%, and decreases the transition probability 3.5%-5.9%. The estimated effect is even larger when wealth is measured as liquid net worth. We also find that search intensity and wealth are negatively correlated, suggesting that these estimates are lower bound on the total effect of wealth on transition probabilities.

Keywords: Reservation wage, wemployment, job search, liquidity constraints

JEL Codes: J64, E24, C33

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1. Introduction

In recent years, there has been an explosion in the number of papers presenting models of worker search in the labor market.¹ When workers are risk adverse or credit constrained, these models predict that increased wealth should increase the reservation wage, decrease search intensity and thus increase unemployment duration. However, there has been surprisingly little research focused on the empirical relevance of these relationships. In this paper we use a unique dataset and a simultaneous equations model to examine the empirical relationship between wealth, reservation wages, and transitions into employment. We find that for a typical job seeker, an increase in wealth raises the reservation wage and decreases search intensity. Since search intensity is positively correlated with employment transitions, our results are consistent with theories predicting that higher levels of wealth increase unemployment duration.

Our study uses a sample from the 1984 Survey of Income and Program Participation (SIPP). This data set has a mixture of information not available in the more widely used NLSY79 or PSID, which makes it ideal for performing our analysis.² Individuals who report that they are currently looking for work or may look for work in the near future are asked questions about their reservation wage, their methods of job search, and how many employers they have contacted. In addition, individuals provide detailed information about wealth, family income, and the duration of their current unemployment spell.

This paper is similar to a study by Bloemen and Stancanelli (2001) that examines the

¹ See Mortenson and Pissarides' (1999) handbook chapter, Ljungqvist and Sargent (1998), Fredriksson and Holmlund(2001) and Lentz and Tranaes (2004) for examples.

² The National Longitudinal Survey of Youth and the Panel Study of Income Dynamics.

relationship between self-reported reservation wages and wealth using a panel of Dutch workers.³ They also use a simultaneous equation model and find a positive relationship between wealth and reservation wages. Their estimates suggest that the overall effect of wealth on the probability of future employment, while negative, is small. Our study differs from Bloemen and Stancanelli's (2001) in three ways. First, we utilize a sample of American workers instead of Dutch workers which makes our results relevant for studies focusing on the U.S. labor market. Second, since our sample includes both unemployed job seekers and individuals who report that they are likely to seek work in the near future, we are able to consider the relationship between labor force attachment and the effect of wealth on labor market outcomes. Third, since our data set includes information on search intensity for job seekers, we extend previous work to examine whether wealth and other sources of income also affect the probability of transitioning to employment by influencing search intensity.

Our study is the first to use the SIPP data to investigate the effect of wealth on reservation wages. However, other studies use U.S. data to examine the effect of unemployment income on reservation wages and transitions out of unemployment. Feldstein and Poterba (1984) use data from a special supplement to the 1976 May CPS to study the relationship between the replacement rate, unemployment and reservation wages. Holzer (1986) uses data from the 1979 and 1980 waves of the NLSY79 to examine the relationship between unemployment duration and reservation wages.⁴ Like Feldstein and Poterba (1984), we find that higher unemployment income increases reservations wages.

³ Algan et al (2003) also examine the relationship between wealth and self-reported reservation wages for a French panel. However, their method differs from those in this paper.

⁴ For a survey of the existing studies using direct evidence of reservation wages through 1990, see Devine and Kiefer (1991).

Although determining the effect of unemployment income on reservation wages is both interesting and important, the main focus of this paper is to investigate the effect of wealth on reservation wages and transitions into employment. We find that increased wealth increases the reservation wage and decreases the probability that a job seeker transitions into employment. Our preferred estimates indicate that a \$10,000 increase in total net worth increases the reservation wage by about 3.1% -4.9% depending on the group of job seekers, and decreases the probability of transitioning to a job by 3.5%-5.9%. Changes in liquid net worth have an even more dramatic effect: a \$10,000 increase in liquid net worth increases the reservation wage by 5.7%-7.4%, and decreases the probability of transitioning into employment by 6.3%-10%.

Increased wealth may also reduce the probability of a transition into employment by reducing the intensity of job search, which in turn reduces the probability of a job offer.⁵ We find that wealth is negatively correlated with search intensity, suggesting that our estimates may be a lower bound on the effect of wealth on transition probabilities. A \$10,000 increase in total net worth reduces the number of employers contacted each month by about 0.15. Since wealth increases the reservation wage and decreases search intensity, which is positively correlated with the probability of a job offer, our analysis suggests that there is a positive relationship between unemployment duration and wealth.

We organize the paper as follows. Section 2 reviews the theoretical framework. Section 3 presents the empirical model used in the estimation procedure. Section 4 discusses our data. Section 5 presents the results of the estimation, and Section 6 concludes.

⁵ See Lentz and Tranaes (2004).

2. A Simple Theoretical Framework

Although the typical model of job search assumes that individuals are risk neutral and maximize income, once the assumption of risk neutrality is relaxed financial assets can affect the reservation wage and the probability of transitioning to a job. This is shown by the following simple model of unemployed job search seen in Danforth (1979) and Bloemen and Stancanelli (2001).⁶

In Danforth's framework, individuals seek to maximize their lifetime utility $\sum_{t=0}^{\infty} \beta^t u(c_t)$ subject to their period by period budget constraint where $\beta \in (0, 1)$ is the discount rate, and the utility function has the properties $u'(c) > 0$ and $u''(c) < 0$. Each period an individual is unemployed he receives a job offer with probability λ_t . Job offers are drawn from a stochastic wage-offer distribution $F(w)$ with density function $f(w)$ and mean $E(w)$. In this simple environment, there is no cost on the job search, and jobs are assumed to last forever. Unemployed individuals with a job offer in hand must decide whether to accept or reject the offer. There is no recall of past job offers and if the offer is rejected the individual must wait one period before he can receive another job offer.

Individuals can accumulate assets over time. Therefore, the budget constraint and asset holdings depend on the employment history and the current employment status. An individual's level of assets at the beginning of time $t + 1$, A_{t+1} , is assumed to evolve according to the following equation:

$$A_{t+1} = (A_t - c_t + i_t)(1 + r) \tag{1}$$

⁶ Other, more complex examples of search models where individuals' labor market transitions and reservation wages are affected by wealth include Browning et. al. (2002), and optimal unemployment insurance models such as Shimer and Werner (2003).

where r is the constant real interest rate, c_t is the amount the individual consumed in period t , and i_t is the amount of income received in period t . If at date t an individual is employed at a job that pays wage w , then $i_t = w$. If an individual is unemployed at date t he receives unemployment benefits, b , for the period and $i_t = b$. Under these conditions, an employed individual who has a job paying wage w and a beginning of period wealth A has the following lifetime utility:

$$V(w, A) = \max_c \{u(c) + \beta V(w, (A - c + w)(1 + r))\}. \quad (2)$$

and an unemployed individual with beginning of period wealth A has the following expected lifetime utility:

$$U(A) = \max_c \left\{ \begin{array}{l} u(c) + \beta(1 - \lambda)U((A - c + b)(1 + r)) + \\ \beta\lambda \int_0^\infty \max [V(w, (A - c + b)(1 + r)), U((A - c + b)(1 + r))] dF(w) \end{array} \right\} \quad (3)$$

In this environment, it is straight forward to show that the worker accepts a job offer if $V(w, A) \geq U(A)$ and rejects it otherwise. The reservation wage, w^R , is the wage that makes individuals indifferent between accepting the job and rejecting the job offer and continuing the search process, (i.e., $V(w^R, A) = U(A)$). From this equation it is clear that the individual's reservation wage depends on the level of his asset holdings: $w^R = w^R(A)$. Danforth (1979) demonstrates that when individuals are risk adverse and $-\frac{u''}{u'}$ is a decreasing function of c , individuals' reservation wages are increasing in the amount of financial assets they hold. The probability of employment, θ , can be written as the probability of receiving a job offer times the probability of accepting it:

$$\theta = \lambda [1 - F(w^R(A))] \quad (4)$$

It follows that the probability that an individual accepts a job offer decreases as the individual's asset holdings increase. Therefore, the model predicts that wealthier individuals will experience longer unemployment duration.

3. The Empirical Model

In general, search models do not provide an analytic solution for the reservation wage $w^R(A)$. As a result, much of the literature concentrates on estimating a reduced form model to uncover the effect of wealth and unemployment insurance on transition probabilities.⁷ In our model, we explicitly let wealth affect the probability of transition through its effect on the reservation wage, which in turn affects the probability that an individual accepts a job. This is accomplished by estimating a system of simultaneous equations for reservation wages, wealth and transition probabilities using the method suggested by Bloemen and Stancanelli (2001). In this model, jobs are characterized in terms of the wages they offer workers. Job seekers face a lognormal wage offer distribution described by the equation:

$$\ln w_{it} = \delta' k_{it} + e_{it} \text{ where } e_{it} \sim N(0, \tau^2) \quad (5)$$

where i indexes individuals and k_{it} are the individual's characteristics at date t . The parameters of this wage-offer distribution, δ , are estimated by a regression on the population of the employed, using the Heckman selection correction.⁸ This information is then used to determine the probability that an offer is accepted by an individual given his observed reservation wage.

⁷ See Devine and Kiefer (1991) for a survey of papers that examine the effect of unemployment insurance on transition probabilities, and Bloemen (2002) and Stancanelli (1999) for studies of the effect of wealth on transition probabilities.

⁸ The results of this regression are reported in Table A1.

The log of the reservation wage, $R = \ln(w^R)$, is a function of the individual's wealth level, A_{it} , and other characteristics, X_{it} :

$$R_{it} = f(A_{it}) + \xi' X_{it} + \varepsilon_{it} \text{ where } \varepsilon_{it} \sim N(0, \sigma_\varepsilon^2) \quad (6)$$

We assume that $f(A_{it})$ is a quadratic function of wealth to allow for a non-linear relationship between R_{it} and A_{it} . This reservation wage equation can be interpreted as an approximation to the solution of a structural search model where error term may represent measurement error, approximation error or randomness in preferences.

An individual's wealth is determined by lagged income and demographic information. Specifically,

$$A_{it} = \Omega' H_{i,t-1} + v_{i,t-1} \text{ where } v_{i,t-1} \sim N(0, \sigma_v^2) \quad (7)$$

where $H_{i,t-1}$ includes the individual's characteristics as of period $t - 1$. The period $t - 1$ values are used because current wealth, A_{it} , is determined by lagged income and other lagged variables which affect the individual's savings decisions.

The probability of a transition to employment depends on the probability that an individual will receive a job offer and the probability that the offer will be accepted. The probability of receiving a job offer in any period is assumed to be:

$$\Pr(\text{job offer}) = \lambda_{it} = 1 - \exp(-\exp(\gamma' Z_{it})) \quad (8)$$

where γ is a parameter vector and Z_{it} includes characteristics such as the elapsed unemployment duration and measures of the individual's search effort. Using this functional form, the larger the value of $\gamma' Z_{it}$, the higher the probability that the individual will receive an offer. We also assume joint normality of the error terms, e, ε , and v and define $\rho_{e\varepsilon}$ as the

correlation between the errors in the offer and reservation wage equations (e_{it} and ε_{it}), ρ_{ev} as the correlation between the errors in the offer and wealth equations (e_{it} and $v_{i,t-1}$) and $\rho_{\varepsilon v}$ as the correlation between the errors in the wealth and reservation wage equations ($v_{i,t-1}$ and ε_{it}).

An individual accepts a job offer if the wage offered exceeds his reservation wage. The acceptance probability conditional on wealth and the observed reservation wage can be written as:

$$\Pr(\ln w_{it} > R_{it} \mid R_{it}, A_{it}) = 1 - \Phi\left(\frac{R_{it} - \delta' k_{it} - \psi(e_{it} \mid \varepsilon_{it}, v_{i,t-1})}{\sigma_{e|\varepsilon, v}}\right) \quad (9)$$

where $\Phi(\cdot)$ is the standard normal distribution function, $\psi(e_{it} \mid \varepsilon_{it}, v_{i,t-1})$ is the part of the conditional mean that arises due to the possible nonzero correlation between the errors of the equations and $\sigma_{e|\varepsilon, v}$ is the conditional variance of the wage error term.⁹ It follows that the probability of observing a transition from unemployment to employment is the probability of a job offer multiplied by the probability that the job offer is accepted:

$$\Pr(\text{Transition}) = [1 - \exp(-\exp(\gamma' Z_{it}))] \left[1 - \Phi\left(\frac{R_{it} - \delta' k_{it} - \psi(e_{it} \mid \varepsilon_{it}, v_{i,t-1})}{\sigma_{e|\varepsilon, v}}\right)\right] \quad (10)$$

For each individual who makes a transition, the likelihood contribution is obtained by multiplying the transition probability by the joint density of wealth and reservation wages. For individuals who do not make the transition, the likelihood contribution is obtained by multiplying $1 - \Pr(\text{Transition})$ by the joint density of wealth and reservation wages.

Wealth enters our model in two places: as one of the three simultaneously determined endogenous variables and as a determinant of the individual's reservation wage. Wealth only affects the probability of a transition into employment indirectly, either through the

⁹ The formulas, along with the derivation of the likelihood function, are available in a technical appendix available upon request.

reservation wage or through possible correlations between the error terms. Although this is consistent with the theoretical literature that assumes arrival rates are exogenous, there are a number of reasons to believe that wealth might also affect the arrival rate. However, the direction of the relationship is not clear.¹⁰ Wealth and the arrival rate could be positively correlated due to unobserved worker heterogeneity or wealth's influence on search intensity. Workers who are higher quality conditional on the observables may have both higher wealth and a higher arrival rate, either because they search harder or because of factors observable to employers but not to the econometrician. Alternatively, wealthy workers may be able to pay higher search costs, increasing their arrival rate. On the other hand, higher wealth might reduce the marginal benefit of income and thus reduce search intensity, causing a negative correlation between wealth and the arrival rate. Given the potential correlation between wealth, search intensity and arrival rates, in Section 5 we empirically examine the relationship between search intensity and wealth.

4. The Data

We use data from the 1984 Survey of Income and Program Participation (SIPP). The 1984 SIPP is survey of about 21,000 households representative of the United States population. About one quarter of households are interviewed each month; each household is interviewed every 4 months (three times a year) from late 1983 until late 1986. During each interview, monthly information is collected on wages, labor market status and other income received for each of the four months covered by the questionnaire. We choose this data because, in addition to the information described above, the wave 5 interview collects information on

¹⁰ See Lentz and Tranaes (2004) for a discussion of the relationship between search intensity and wealth.

self-reported reservation wages and job search intensity from individuals who are not working but are either currently searching for work, or report that they are likely to look for work in the next year. This information is combined with detailed information on wealth and assets collected in the wave 4 interview. Our analysis focuses on waves 2 to 9 because changes in the questionnaire make the information from the wave 1 interview less reliable.

The Selection of the Sample: Since we are interested in the relationship between wealth, reservation wages and transitions into employment, we limit our sample to individuals who are likely to be available for work - individuals who are 16-59 and not enrolled in school. We also limit the sample to individuals who were interviewed in both wave 4, when wealth information was collected, and wave 5, when reservation wage information was collected.

Wealth information is collected at the household level. Because of this, we restrict our sample to household heads and wives since the predicted relationship between household wealth and labor market behavior is clearest for these individuals. Single individuals who are not heads are excluded since most often they are still living with their parents. As a result, their household wealth information includes their parents' wealth, which they are less likely to have direct access to.

Our sample is also limited to individuals from whom reservation wage information is collected: individuals who are not working but are either currently searching for work, or report that they are likely to look for work in the next year. This leaves us with a sample of 1339 heads and wives. After the date the reservation wage information is collected, individuals are followed for an additional 16 months (through 4 more interviews). This allows us to observe whether they accept a job during this time frame and the wage at the

job if it is accepted.

Descriptive Statistics: Table 1 presents summary statistics for key variables in our analysis. Most of our analysis is limited to individuals who report both a reservation wage and wealth. We refer to this as the reservation wage sample, and present separate summary statistics for this group. As a comparison, we present summary statistics for unemployed individuals who do not report reservation wages, and for non-searchers who do not report a reservation wage.¹¹ We also present separate summary statistics for heads and wives in the reservation wage sample.

The first 4 columns of Table 1 present summary statistics for unemployed individuals. The first column reports summary statistics for individuals who did not report reservation wage information, usually because another member of the household answered the survey. These individuals are similar to the unemployed individuals in the reservation wage sample with one difference: married women are more likely to be self respondents, and therefore married women are over-represented in the reservation wage sample.

The second 4 columns of Table 1 present summary statistics for individuals who are out of the labor force during wave 5 of the survey. Column 5 presents summary statistics for individuals who do not report reservation wage information, either because they are not wave 5 self-respondents or because they report that they are unlikely to look for a job in the near future. Compared to these individuals, the OLF portion of the reservation wage sample is more likely to have held a job in the past year, and is more likely to find a job in

¹¹ Unemployed individuals are not asked reservation wage information if they are not wave 5 self respondents. Individuals who are not in the labor force report reservation wage information only if they are self respondents and report that they are likely or somewhat likely to look for a job in the near future.

the next 16 months. The OLF portion of the reservation wage sample also reports having worked more months in the past year and having been unemployed more months in the past year than other individuals who are out of the labor force. However, the OLF portion of the reservation wage sample is less likely to have worked in the past year and less likely to transition into work than unemployed individuals.

This raises the issue of whether or not to include the OLF portion of the sample in the analysis at all. Some previous studies (for example, Bloeman and Stancanelli, 2001) restrict the sample to individuals who report actively searching. However, a full 40% of the OLF job seekers find a job within 16 months of the wave 5 interview, compared with 22% of other OLF individuals and 60% of unemployed individuals. In addition, the typical OLF member of our sample reports being in the labor force about 4 months in the past year, compared with about 2 months for the typical OLF individual not in our sample. This could indicate that the level of search intensity changes throughout a non-employment spell, or that our OLF job seekers are "marginal workers". They are clearly less attached to the labor force than unemployed job seekers, but much more attached than other OLF individuals. In what follows, we include both groups in our estimation sample, although we do look for differences between the two groups.

Wealth and Income Data Wealth information is collected during the wave 4 interview, 4 months before reservation wage data is collected.¹² We examine two measures of wealth: total net worth and liquid net worth. Total net worth is defined as total wealth minus

¹² McNeil and Lamas (1989) and Curtin, Juster and Morgan (1989) find that the wealth information in the 1984 SIPP is comparable to the wealth information in the PSID. Differences between the SIPP data and the Survey of Consumer Finances (SCF) seem to be related to measures of equity in motor vehicles and businesses, and the fact that the SCF over samples the high income portion of the population.

total unsecured debt, where total wealth includes the household's home equity, net equity in vehicles, business equity, interest earning assets held in banking and other institutions, equity in stocks and mutual fund shares, equity in other real estate, total of mortgages held, money owed from sale of business, bonds, IRA and Keogh accounts. This measure is chosen since it includes most of the major assets that a household would hold, and takes into account the total amount of the household's debt (secured and unsecured). Liquid net worth includes interest earning assets held in banking and other institutions, equity in stocks, bonds, and mutual fund shares minus unsecured debt. We consider this measure of wealth since reservation wages may be more responsive to easily accessible assets than to less liquid assets such as pension funds, equity in a home or real estate equity.

Table 1 shows the mean level of wealth for various sub-groups in our sample. The typical unemployed head is less wealthy than a head who reports not actively searching, and heads are on average less wealthy than wives. This is expected since the sample of heads includes single individuals, who tend to have lower household wealth than married couples.

Table 2 reports the quantiles of the distribution for net worth and liquid assets. The top panel reports the quantiles for unemployed individuals, while the bottom panel reports wealth for OLF individuals. Unemployed individuals in our sample have slightly lower levels of wealth than the full sample of the unemployed, largely because married men are under-represented in our sample because they are less likely to be self respondents. The sample of OLF job seekers reports wealth levels closer to the unemployed sample than the representative out of labor force sample. This is not surprising, since the sample of OLF job seekers is likely to include many discouraged workers and workers who plan to re-enter the labor force for financial reasons.

Reservation Wage Data Reservation wages are measured based on responses to the question: What is the lowest wage or salary that you would accept? Survey respondents report the minimum wage they would accept per hour, per week, per month, and per year. Most respondents provide an hourly wage. For the other respondents, the answer is converted to an hourly wage assuming that individuals work 40 hours per week, 176 hours per month, and 2000 hours per year. As expected, individuals who report weekly, monthly or yearly reservation wages have on average higher hourly reservation wages.

To check whether the reported values of the reservation wage are reasonable, we compare self-reported hourly reservation wages to the hourly wage received before the non-employment spell, and to the hourly wage received at the job the individual accepts. Table 3 presents summary statistics for these variables, and Table 4 presents the ratio of the reservation wage to the previous wage and to the wage accepted at the next job.

We first compute the ratio of the reservation wage to the wage received at the most recent job. One would expect unemployed individuals to set their reservation wage equal to or less than their previous wage, leading to a ratio that is less than one. This is in fact true for 74% of our sample. However, about 15% of the sample has a reservation wage ratio greater than 1.2, indicating that the reservation wage is substantially higher than the previous wage. The finding that a substantial portion of the sample reports a reservation wage higher than the previous wage is consistent with previous studies.¹³

We next compute the ratio of the reservation wage to the wage accepted at the next job. One would expect individuals to accept only wage offers above their reservation wage, leading to a ratio that is less than one. About 69% of the sample reports an accepted wage

¹³ See for example Hogan (2004), and Feldstein and Poterba(1984).

that is in fact higher than their reservation wage, and another 10% report an accepted wage no more than ten cents lower than their reservation wage. Once again, these results are consistent across demographic groups. However a substantial portion of the sample report a re-employment wage significantly lower than their reservation wage. This is again consistent with previous studies using reservation wage data: Hogan (2004) finds a mean reservation wage to accepted wage ratio of 1.39. These findings indicate that the reservation wage data in our sample is consistent with other studies using self-reported reservation wage information.

5. Empirical Results

This section discusses our empirical results. First we present single equation estimates of the reservation wage equation. Next, we estimate the simultaneous equation model of reservation wages, wealth and transitions to employment. Finally, we explore the relationship between wealth and search intensity.

5.1. The Reservation Wage

Tables 5 and 6 present results for a single equation model of reservation wages based on equation 6. These regressions can be interpreted as a reduced form reservation wage equation. Independent variables in the baseline model include a constant, wealth, wealth squared, unemployment insurance income, other household income, a quadratic in experience, the state consumer price index, the log of the state average wage, the state unemployment rate, a dummy variable indicating if the individual is unemployed, a quadratic in the number of weeks since the individual was last employed interacted with the unemployment dummy, a dummy variable indicating if the individual has any children interacted with gender, and dummy variables indicating if an individual is male, is a household head, is married, and is

black.

5.1.1. OLS Results

Tables 5 presents single equation results of the reservation wage equation for the full sample of job seekers. Wealth is measured as liquid net worth in columns (1)-(3) and as total net worth in columns (4)-(6). We present results for three models: a base model; a model including all variables in the base model and adding weekly hours of work at the most recent job if observed; and an instrumental variable model that is discussed below.

In all of the OLS specifications we find that: (i) wealth has a small positive effect on reservation wages; and (ii) the effect of wealth on reservation wages is much larger for individuals who are OLF than it is for those who are unemployed. For example, increasing total net worth from \$0 to \$10,000 causes a 2.1% increase in the reservation wage of an OLF individual, but only a 0.6% increase in the reservation wage for an unemployed individual. A similar increase in liquid net worth increases the reservation wage by approximately 1.8% for an OLF individual and about 0.9% for an unemployed individual. However, for over 95% of our sample the reservation wage increases with wealth.

Higher levels of income from unemployment insurance or other sources also significantly increases the reservation wage.¹⁴ A \$1000 per month increase in the unemployment benefit increases the reservation wage by about 36.6%.¹⁵ ¹⁶ A \$1000 per month increase in other

¹⁴ This is consistent with other studies such as Lancaster and Chester (1983) and Feldstein and Poterba (1984).

¹⁵ This implies the elasticity of reservation wages with respect unemployment benefits is approximately 0.146, which is within the range of estimates reported in Lancaster and Chester (1983).

¹⁶ UI benefits may be positively correlated with the reservation wage either because UI benefits partially insure consumption or because UI benefits are tied to past wages. To explore whether the insurance component of the benefits is important, we estimated the model omitting the level UI benefits received but including a dummy for receiving UI, a variable reflecting the generosity of the state UI benefit levels, and an interaction term. We found an increase in the generosity of UI benefits increases the reservation wage,

family income increases the reservation wage by a little more than 3.4%.

One potentially endogenous explanatory variable in the reservation wage equation is spell duration - the number of weeks since an individual was last employed. Duration may be endogenous in the reservation wage equation for two reasons. First, duration may depend on reservation wages, creating simultaneity issues. Alternatively, unobserved heterogeneity may be correlated with duration. Either of these problems could bias our estimates. However, excluding duration causes no qualitative difference in the estimated effects of wealth and income on the reservation wage. Duration does affect the reservation wage of unemployed job searchers: during the first year of non-employment the reservation wage falls as the duration increases. Unemployed individuals who do not find employment in the first week decrease their reservation wage by about 1%, and an increase in duration from 0 to 4 weeks reduces the reservation wage by 4%.¹⁷

Column (2) presents results from a model including the hours per week worked at the most recent job.¹⁸ Including hours has no substantive effect on the relationship between wealth, U.I. income, or other income and the reservation wage. As expected, individuals who held a job in the past 16 months have reservation wages that are about 6% higher than similar individuals who have not held a job recently.

and that the magnitude of the increase is similar to that reported in the case where the individual's own UI benefits are used.

¹⁷ Regressions excluding the duration variables are not reported since they give similar results.

¹⁸ We use hours at previous job (where observed) since the SIPP does not record the desired number of hours. Previous hours or desired hours may be correlated with unobserved random preferences. This problem could be solved using instrumental variables methods or by specifying an hours equation. However, reservation wages and hours are likely to be determined by the same variables. Therefore, we estimate models with and without previous hours. The first model is justified by an assumption that previous hours are uncorrelated with the disturbance term. The second can be interpreted as a reduced form reservation wage equation. We found little qualitative difference in our estimates with and without hours, and present results from both models.

5.1.2. Instrumental Variable Results

As discussed above, we are concerned that wealth may be correlated with the error in the reservation wage equation. Below, we deal with this issue by estimating a simultaneous equations model. Here we attempt to deal with the issue by instrumenting for current wealth using lagged price levels, lagged values of spousal earnings and unearned family income, and lagged tax rates.¹⁹

Columns (3) and (6) of table 5 present results from this instrumental variable estimation of the reservation wage equation.²⁰ The estimated effect of wealth on the reservation wage is larger than the OLS estimate, although the standard errors also increase. IV results indicate that an increase in total net worth from \$0 to \$10,000 increases the reservation wage by 4%, and that a similar increase in liquid net worth increases the reservation wage by 14% for the OLF sample and by 6% for the unemployed sample. These results indicate that, by ignoring endogeneity, the OLS results may understate the effect of wealth on the reservation wage.

5.1.3. Comparing Heads and Wives

The summary statistics above indicate that married women are over-represented in our sample. Married women are often secondary earners or have family obligations that may cause them to react differently to changes in wealth or other financial resources. Because of this, in Table 6 we present separate OLS and IV results for heads and wives.²¹ We again find that as wealth increases, the reservation wage decreases, and that using IV to correct

¹⁹ Instruments include a quadratic in lagged spousal earnings and a quadratic in lagged unearned family income, interacted with the level of experience, the log of the 1981 state CPI, and the state average tax rate on income from pensions, dividends, interest, and earnings. The set of instruments is chosen based on performance in the first stage regressions.

²⁰ The Hausman test for endogeneity provides evidence that for all sub-groups wealth is in fact endogenous.

²¹ Both OLS and IV equations control for all variables in the model presented in column (2) of Tables 4 and 5.

for endogeneity increases the magnitude of the estimated effect. OLS estimates indicate that an increase in wealth from \$0 to \$10,000 increases the reservation wage by about 3% for the OLF heads and about 2% for the OLF wives. The point estimate of the effect of wealth on the reservation wage increases once we use IV. An increase in total net worth from \$0 to \$10,000 increases the reservation wage by about 5% for wives, and by about 3% for OLF heads. A similar change in liquid net worth increases the reservation wage by about 9% for wives and by about 11% for heads.

Wealth again has less of an effect on the reservation wage for unemployed workers. In fact, the OLS estimates suggest that a \$10,000 increase in wealth has less than a 1% effect on the reservation wages of the unemployed. The IV point estimates predict somewhat larger effects: a \$10,000 increase in total net worth increases the reservation wage by about 2% for the unemployed, while a similar increase in liquid net worth increases the reservation wage by about 3%.

For both heads and wives, increases in other family income and unemployment benefits increase the reservation wage. However, the estimated effect is much larger for heads than for wives. A \$1000 increase in monthly unemployment benefits increases the typical head's reservation wage by about 40%, while it increases the typical wife's reservation wage by only about 10%. The difference between heads and wives in how responsive reservation wages are to changes in wealth and U.I. income is one reason we present separate simultaneous equation results for the two groups below.

5.2. Simultaneous Equations Estimation

The above results investigate the relationship between reservation wages and wealth ignoring the possibility that wealth is endogenous (with the exception of the instrumental

variables approach). However, there is concern that reservation wages, wealth, and job market transitions are in fact jointly determined. To allow for this possibility, we estimate a simultaneous equation model. The results are reported in Tables 7 to 12. Table 7 and 8 report results for all job seekers; Tables 9 and 10 report results for heads; and Tables 11 and 12 present results for wives.²²

5.2.1. The Reservation Wage Equation

The reservation wage equation includes the same explanatory variables as the OLS model presented in column (3) of Tables 5 and 6. The results from simultaneous estimation are given in column (1) of Tables 7 to 12. Tables 7, 9, and 11 present results using liquid net worth; Tables 8, 10, and 12 present results using total net worth. We assume that current levels of other household income, U.I. benefits, hours at previous job, and the current average state wage affect reservation wages but do not affect the probability of an offer or the level of net worth reported during the previous wave. Allowing wealth and reservation wages to be jointly determined dramatically increases the estimated effect of wealth on the reservation wage.

Full Sample Results: Column (1) of Tables 7 and 8 presents the reservation wage equation results for the full sample. We find that the reservation wage increases with wealth, although the effect is somewhat smaller for the unemployed than for OLF job seekers. For an OLF individual at the median level of liquid net worth (\$0), an \$10,000 increase in liquid net worth increases the reservation wage by about 6.7%, while increasing total net worth

²² These tables report the coefficients for the subset of variables which are of primary interest in our analysis, and omit some of the coefficients on demographic variables. The full set of coefficients are available from the authors upon request.

from zero to \$10,000 increases the reservation wage by about 4.3%. For an unemployed individual, an increase in liquid net worth from \$0 to \$10,000 increases reservation wages by about 5.5% and a similar increase in total net worth increases the reservation wages by 3%. The weaker effect of total net worth on reservation wages is not surprising since assets such as equity in a home may be difficult to access to finance spells of unemployment. It is also not surprising that increases in wealth increase reservation wages more for OLF job seekers than for unemployed workers since wealth effects are likely to be more significant for individuals who are less attached to the labor market.

As expected, unemployment insurance income and other family income increase the reservation wage, with estimated effects that are similar to those found in the OLS estimation. A \$1000 increase in monthly U.I. income increases the reservation wage by about 30%, and an increase of \$1000 in other household income increases the reservation wage by about 2.5%.

Most of the demographic variables have the expected effect on reservation wages. On average, unemployed individuals have reservation wages that are about 10-12% higher than individuals who are currently out of the labor force. Men have higher reservation wages than women; black men have lower reservation wages than white men, but there is no significant difference in the reservation wages of black and white women. Each additional year of education increases the reservation wage by more than 2.6%. In addition, for the unemployed the reservation wage falls as the time without a job increases: an increase in duration from 0 to 4 weeks decreases the reservation wage by about 2.9%.

Comparing Heads and Wives: Given that in the single equation model we find differences between heads and wives in the effect that both wealth and unemployment income have

on the reservation wage, we estimate separate simultaneous models for these two groups.²³

Tables 9 and 10 present results for heads; Tables 11 and 12 present results for wives.

Higher levels of wealth increase the reservation wages for nearly all individuals in our sample. The estimated effect is higher for heads than for wives, although the difference is not statistically significant. An increase in liquid net worth from \$0 to \$10,000 increases the reservation wage by about 6.3% for an OLF wife and by about 7.9% for an OLF head. A similar increase in total net worth increases the reservation wage by about 3.5% for an OLF wife and 5.5% for an OLF head. Our estimates indicate that reservation wages are less sensitive to changes in wealth for the unemployed sample, although the difference is significant only for wives. Again, it is not surprising to find that individuals who are less attached to the labor force are more responsive to changes in wealth.

Reservation wages also increase with monthly unemployment benefits, although the effect is much stronger for heads than for wives. A \$1000 increase in monthly U.I. income is associated with a 36% increase in the reservation wage for heads, but only a 7% increase in the reservation wage for wives.

The Effect of Wealth on the Reservation Wage: Consistent with our OLS results, reservation wages increase with wealth for all but the most wealthy in our sample. The magnitude of this effect is illustrated in Figures 1-2 and the elasticities are reported Table 14. The positive effect of wealth on the reservation wage is consistent across demographic groups and remarkably robust across specifications. We also find evidence that individuals with low levels of wealth are more sensitive to changes in their net worth than individuals

²³ We assume that heads and wives draw wages from different wage offer distributions. The results do not qualitatively change if we instead assume that heads and wives draw from the same wage offer distribution.

with higher levels of wealth.

Figure 1 shows the percent change in the reservation wage associated with a \$1000 increase in liquid net worth for levels of liquid net worth between -\$150,000 and \$500,000. Results are presented separately for OLF and unemployed heads, and for OLF and unemployed wives. The predicted relationship between the reservation wage and liquid net worth is positive for all individuals except OLF wives with liquid net worth above \$350,000 - 3 individuals in our sample.

Figure 2 shows the percent change in the reservation wage for a \$1000 increase in total net worth for levels of total net worth between -\$200,000 and \$1,000,000. Results are presented separately for OLF and unemployed heads, and for OLF and unemployed wives. The predicted relationship between reservation wages and wealth is again positive for the vast majority of individuals in our sample: only OLF wives with net worth exceeding \$350,000 and OLF heads with wealth greater than \$450,000 have reservation wages that decrease as wealth levels increase.²⁴

Table 13 presents the elasticity of the reservation wage with respect to wealth at the mean of the explanatory variables. The top panel presents elasticities with respect to total net worth. These elasticities range between 0.08 and 0.15. A \$10,000 increase in total net worth increases the reservation wage between 1.6% and 6.1%, depending on the demographic group. The bottom panel presents elasticities of the reservation wage with respect to liquid net worth. These elasticities range between 0.048 and 0.081. A \$10,000 increase in liquid net worth increases the reservation wage between 5.6% and 7.7%.

5.2.2. The Wealth Accumulation Equation

²⁴ Only five wives in our sample fall into this category.

The simultaneous equations estimates of the wealth accumulation equation are given in column (3) of Tables 7 to 12. We allow wealth accumulation to depend on previous period household earnings, unemployment income and unearned income, as well as demographic and human capital variables. We assume that previous period income variables are correlated with the current level of wealth, but uncorrelated with the reservation wage once we have controlled for current period wealth and income. Thus, these variables allow us to identify the parameters of the model and determine the effect of wealth on the reservation wage.

As expected, higher levels of household earnings and higher unearned income in previous periods lead to higher current wealth. The relationship between wealth and lagged earnings is significant for all groups. For the full sample, a \$1000 increase in lagged monthly earnings is associated with a \$9,100 increase in current total net worth and a \$5,500 increase in current liquid net worth. Lagged unearned income is also a significant predictor of current total net worth, and a significant predictor of current liquid net worth for heads and the full sample. A \$1000 increase in unearned income is associated with a \$10,200 increase in current total net worth and a \$5,700 increase in current liquid net worth.

The other variables in the wealth equation have the expected effect. Unemployed individuals have lower wealth levels. Wealth accumulation increases with education and decreases with children. We allow for a quadratic in experience to capture the life cycle patterns of wealth accumulation.²⁵ The effect is significant and suggests that individuals' net worth levels increase until they reach retirement age, and liquid net worth increases until individuals reach their mid to late 50s.

We also find that black individuals accumulate less wealth than their comparable white

²⁵ Experience is measured as age-education-6.

individuals. A black individual has, on average, \$14,000 less total net worth and \$3500 less liquid net worth than a comparable white individual. The fact that there are no controls for parent's wealth or lagged wealth may explain part of this result. If white individuals start out life with more wealth (or less debt), this may lead to greater wealth accumulation, all else held constant.

5.2.3. The Job Offer and Transition Equation

According to the model presented in Section 3, the probability of transition depends on the probability that the individual receives a job offer and the probability that the offer is accepted. We estimate a probit model of the probability that an individual will receive a job offer in the 16 months following the wave 5 interview. Independent variables in the job offer equation include: a constant, education, the state unemployment rate, the minimum and maximum levels of state employer U.I. taxes²⁶, a quadratic in experience, a quadratic in the number of weeks since the individual was last employed, the number of direct employer contacts the individual made during the last month, the number of search methods used other than direct contact, and dummy variables indicating if an individual is living in a city, is a household head, is using direct employer contact as a search method, is black, is likely to be recalled to previous job, is likely to be searching for a job in the next year, and has censored duration information. We allow the effects of direct search and other search methods to differ between heads and wives by including interaction terms. The estimates of the parameters in the job offer equation (the vector γ in equation 8) are presented in column

²⁶ Since vacancy rates are unavailable, we use the employer UI tax rates to capture some costs associated with hiring additional personnel. The effects of this type of tax in a search model is discussed in Millard and Mortensen (1997).

(2) of Tables 7 to 12.²⁷

The Job Offer Equation: The most significant predictors of an individual's probability of receiving a job offer are the state unemployment rate, the time elapsed since last job, measures of the individual's search intensity (searching by direct contact, the number of contacts, and the likelihood of searching in the future), state levels of employer U.I. taxes, and whether or not the individual expects to be recalled.

Direct contact is an indicator variable which takes the value of one if an individual is actively searching by directly contacting employers. Individuals who are directly contacting employers are more likely to receive job offers and to make the transition to employment.²⁸

However, contacting more employers each month significantly increases the probability of receiving a job offer only for household heads.

The variable *other search methods* counts the number of search methods used other than directly contacting employers.²⁹ The point estimate of the effect of searching using other methods on the probability of receiving an offer is positive for wives and negative for heads, although neither effect is significant. The lack of a significant effect may be due to the fact that less than 10% of the unemployed sample is searching using other methods. In addition, individuals who are using more than one other search method have higher spell duration - 32 weeks on average, versus 27 weeks for other unemployed workers. This may indicate that

²⁷ These parameters can be interpreted as probit parameters.

²⁸ This is similar to noting that unemployed individuals are more likely to transition to employment than the out of the labor force searchers. All individuals in the unemployed sample are searching, with 90% making direct contacts. There is no information on search methods for the out of the labor force sample, so we assume that they do not search. Therefore, we cannot separately identify the effects of being unemployed, of searching by making direct contacts, and of searching using other methods.

²⁹ Other possible methods of search include (i) contacting the unemployment office, (ii) using a private employment agency, (iii) asking friends or relatives, or (iv) doing anything else.

individuals who have moved to other methods of search have such high duration that they are very unlikely to get a job offer or make a transition.

Consistent with Millard and Mortensen (1997), we find that when unemployment taxes on employers are high, individuals are less likely to receive job offers. A high maximum employer U.I. taxes significantly decreases the probability of a job offer for wives and a high minimum employer U.I. tax rate significantly decreases the probability of an offer for household heads. A one standard deviation increase in the minimum employer U.I. tax decreases the probability of a job offer by about 9% for the average household head, while a one standard deviation increase in the maximum employer U.I. tax rate decreases the probability of a job offer for wives by about 10%.

Not surprisingly, individuals who report that they are likely to be recalled to their previous job are 36% more likely to get a job offer and make the transition back into employment. Among individuals who are currently out of the labor force, those who report that they are likely to look for a job are 74% more likely to receive an offer than those who report that they are only somewhat likely to search for a job. The magnitudes of these effects are similar for heads and wives.

Consistent with previous studies such as Bloemen and Stancanelli (2001), Katz and Meyer (1990) and Barron and Mellow (1981), we find that as the duration of the current unemployment spell increases, the probability of a job offer and the probability of a transition to employment decrease. Each additional week of spell duration decreases the probability of receiving a job offer by 0.8% for the full sample, 1.2 % for the typical head and 0.4 % for the typical wife.³⁰ This effect may be related to skill deterioration or to employers' beliefs that

³⁰ The elapsed time without a job may be correlated with unobserved heterogeneity. To be certain that

individuals who have been out of work for long periods of time are lower quality employees than those with short unemployment duration.³¹ The effect of an increase in duration on the probability of transition is smaller for the unemployed since their reservation wages initially decrease as duration increases.

Most of the demographic and human capital variables do not influence the probability that individuals will receive a job offer. The point estimates of the parameter on experience indicate that the probability of a job offer declines as workers get older, but the effect is insignificant. Similarly, there is no evidence that education, gender, or living in a metropolitan area affect the probability of a job offer. Controlling for other observables, black heads are less successful in getting job offers than their white counterparts. In contrast, black wives appear to be more likely to receive a job offer, although this effect is insignificant.

The Probability of Transition: The probability of transitioning into a job depends on the probability that an individual receives a job offer, and the probability that the offer is accepted - that is, the probability that the wage offered is above the reservation wage. Financial resources - wealth, U.I. income, and other family income - affect this probability in two ways. First, individuals with more resources may search with less intensity, reducing their probability of receiving a job. Second, as discussed above, increased resources are positively related to reservation wages, making it less likely that the offer received is above

including this variable does not drive our results, we estimated the model excluding the duration variables. The results from these regressions are not significantly different from those reported in the paper. We estimated variants of the model that included the number of past spells of long term unemployment in the offer equation to see if the past duration variables help correct for unobserved heterogeneity. The estimate had the expected negative sign, but it was small in magnitude and statistically insignificant.

³¹ Our findings are consistent with the environment in Blanchard and Diamond (1994) where employers rank job candidates by their unemployment duration and those with longer durations are the last to receive job offers.

the reservation wage.

In our data, we observe whether or not an individual transitions to a job within 16 months after the reservation wage data is collected. Table 13 presents estimates of the effect of wealth on the probability of transitioning to a job within this time. The top panel presents results for total net worth. The wealth elasticity of transitions ranges from -0.068 for unemployed heads to -0.275 for out of the labor force wives. This indicates that an increase in total net worth from \$0 to \$10,000 decreases the probability of transitioning to a job within 16 months by about 3% to 8.5%. The bottom panel of Table 13 presents results for liquid net worth. Once again, increased wealth decreases the probability of transitioning to a job for all demographic groups. The wealth elasticity of transitions ranges from -0.023 for unemployed heads to -0.152 for out of the labor force wives. This indicates that a \$10,000 increase in liquid net worth at the mean decreases the probability of transitioning to a job within 16 months by about 5.5% to 12.6%.

5.3. Determinants of Search Intensity

Our results in the previous section indicate that individuals who search by directly contact employers have a higher probability of receiving a job offer than those who do not. However, models such as that presented in Lentz and Tranaes (2004) show that wealth and other income sources may affect search intensity. Individuals may search harder if they have less wealth, or may increase their search intensity as they spend down their assets. In this section we investigate the empirical relationship between wealth and search intensity using Poisson count models for the number of contacts. We focus on the number of contacts made last month instead of other search methods for two reasons. First, as Table 14 shows, less than 10% of unemployed individuals report using other search methods. Second, only direct

contacts appear to be a significant predictor of receiving a job offer.

In table 15 we present results from a reduced form equation for search intensity.³² We estimate a Poisson model of the number direct employer contacts in the last month. Independent variables include wealth, other family income, unemployment benefits, a dummy variable that takes the value of one if the state requires active search as a condition of receiving U.I., and demographic variables. Separate results are reported for the full sample of unemployed, unemployed heads, and unemployed wives.³³

We find that as wealth increases, the number of employers contacted decreases. A \$10,000 increase in total net worth is associated with 0.14 fewer contacts per week for heads (or about 1 fewer contact every 6 weeks), and with 0.03 fewer direct contacts per week for wives. For the sub-sample of wives, liquid net worth also has a statistically significant negative effect on the number of direct contacts.

For heads, we find the expected results that the number of employers contacted falls as the level of other household income increases and as the level of the unemployment benefit increases. A \$1000 increase per month in other household income reduces the number of employers contacted by 0.991 per week, while a \$1000 increase in the monthly U.I. benefit reduces the number of weekly contacts by 0.47. However, in the sample of unemployed wives, we find that the number of employers contacted actually increases as the level of other household income increases and as the level of the unemployment benefit increases.³⁴

³² Our reduced form equation is similar to the one used by Keeley and Robins (1985).

³³ Questions about methods of search were only asked of the unemployed sample. Therefore, we estimate models using only the unemployed sample. Regressions based on the full sample and the assumption that the OLF made no contacts yield similar results.

This could be because among wives, higher levels of U.I. benefits reflect higher levels of attachment to the labor forces. Further, since previous wages are not included in our regression and U.I. benefits are usually based on the individual's previous wage, the fact that wives with high U.I. benefits search harder may indicate that these women make more contacts because they expect a higher future wage.

6. Conclusions

In this paper we examine the effect of wealth and other resources on reservation wages, employment probability, and search effort for American job seekers. Many search models predict that wealth should increase the reservation wage, decrease search intensity and thus increase the duration of unemployment. Previous applied work has either restricted attention to the effect of unemployment insurance and other resources on reservation wages because of data limitations, or has not used data from the United States. Our study fills this gap by using data on self-reported reservation wages, wealth and search intensity from the 1984 SIPP to examine the empirical relationships between wealth, reservation wages, search intensity and the duration of non-employment.

Single equation estimates indicate that wealth has a significant positive effect on the reservation wage. Our estimates indicate that a \$10,000 increase in wealth increases the reservation wage by about 2% for a typical worker. Increases in unemployment benefits and increases in other family income also significantly increase the reservation wage. These results support the theory, which predicts that when agents are risk adverse or credit con-

³⁴ This first effect may be due to assortative matching. In this case, high ability wives would be married to high ability husbands who have high paying jobs. High ability individuals may then search harder in part because they expect to receive a higher future wage.

strained, an increase in wealth or other resources will increase the reservation wage. However, instrumental variable estimation provides evidence that wealth and the reservation wage are simultaneously determined.

Next, we estimate a simultaneous model of wealth, reservation wages, and transitions into employment. This model allows wealth to be endogenous, and allows for the possibility that reservation wages, wealth, and job market transitions are jointly determined. Our findings again support the relationships predicted by the theory. For over 95% of our sample, an increase in wealth increases the reservation wage. For the median worker, a \$10,000 increase in liquid net worth increases the reservation wage by about 8% and a \$10,000 increase in total net worth increases the reservation wage by 4%. Unemployed individuals are less sensitive to changes in wealth than individuals who are less attached to the labor market (i.e., the people currently out of the labor force). Consistent with past studies, we find that increases in unemployment insurance benefits and other household income increase the reservation wage. Since the probability of making a transition depends on the probability that an individual gets an offer and the probability that the offer is accepted, our findings suggest that increases in wealth, income, or unemployment benefits decrease the probability that an individual will make a transition into employment. In other words, our findings suggest that wealthier individuals will experience longer unemployment duration. This suggests that future research may want to focus on building search models that assume that markets are incomplete, and that individuals are risk adverse and potentially credit constrained.

Finally, we examine the effect of search intensity on the probability of receiving a job offer. We find evidence that the probability of a job offer increases with search intensity. Theory predicts that higher wealth may reduce search intensity. Our estimates support this:

we find that wealth and search intensity are negatively correlated. This suggests that our estimates of the effect of wealth on transitions into employment are likely to be a lower bound, and that future research should consider a model where reservation wages, search intensity, wealth, and job market transitions are jointly determined.

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Table 1 : Mean Value of Key Variables
 Unemployed and Out of the Labor Force Job Seekers, 1984 SIPP

	Unemployed				Out of the Labor Force			
	Reservation Wage Not Observed	Reservation Wage Sample			Reservation Wage Not Observed	Reservation Wage Sample		
		All	Heads	Wives		All	Heads	Wives
Reservation Wage		\$5.31	\$5.77	\$4.53		\$4.58	\$5.07	\$4.33
Held Job in Past Year	76.94%	73.35%	74.36%	71.67%	27.11%	40.36%	38.87%	41.15%
Wage at most Recent Job	\$7.35	\$6.85	\$7.59	\$5.52	\$6.40	\$5.14	\$5.64	\$4.88
Hours at Most Recent Job	38.37	36.26	38.52	32.32	31.23	31.26	34.05	29.90
Transition to Job in Next 4 Months	39.14%	42.05%	42.56%	41.20%	11.19%	19.13%	16.19%	20.68%
Transition to Job in Next 16 Months	57.91%	61.00%	60.77%	61.37%	22.02%	39.94%	34.01%	43.07%
Wage at Next Job	\$6.98	\$6.53	\$7.14	\$5.55	\$6.15	\$4.99	\$5.44	\$4.80
Hours at Next Job	36.42	34.53	36.80	30.77	29.76	29.62	33.55	28.03
Net Worth	\$35,234	\$29,423	\$20,100	\$45,027	\$77,543	\$39,565	\$26,651	\$46,366
Liquid Net Worth	\$9,965	\$8,527	\$4,180	\$15,804	\$28,330	\$11,583	\$8,689	\$13,107
Receive U.I.	27.35%	27.77%	29.74%	24.46%	1.18%	2.09%	2.43%	1.92%
Monthly U.I. Benefit	\$504	\$490	\$557	\$353	\$384	\$415	\$567	\$313
Monthly Total Household Income	\$1,205	\$1,252	\$928	\$1,795	\$2,216	\$1,755	\$786	\$2,265
Spouse Has Earnings	52.01%	46.39%	26.67%	79.40%	67.03%	62.43%	8.10%	91.04%
Monthly Spousal Earnings	\$1,441	\$1,498	\$1,039	\$1,757	\$2,440	\$2,096	\$1,297	\$2,133
Months Worked in Last Year	5.22	5.13	5.22	5.00	1.48	2.11	2.02	2.15
Months Unemployed in Last Year	4.65	4.54	4.87	4.00	0.27	1.02	1.67	0.68
Age	35.23	35.08	35.62	34.18	41.25	35.23	36.29	34.68
Highest Grade Completed	11.66	11.95	11.79	12.21	11.91	11.86	11.56	12.02
Black	12.87%	15.25%	17.95%	10.73%	8.42%	12.29%	29.55%	3.20%
Male	67.29%	38.68%	61.79%		14.90%	9.92%	28.74%	
Married	77.21%	65.01%	44.10%		83.28%	71.37%	17.00%	
Head	76.41%	62.60%			27.35%	34.50%		
Weeks Since Last Worked	24.87	28.18	27.05	30.06	51.66	46.37	47.07	46.00
Number of Obs:	373	623	390	233	3397	716	247	469

TABLE 2: Distribution of Wealth in 1984 Dollarsⁱ

Job Seekers, 1984 SIPP

		Reservation Wage Not Observed	<u>Reservation Wage Sample</u>		
			All	Heads	Wives
Unemployed					
Net Worth	0.10	-\$630	-\$620	-\$1,492	-\$77
	0.25	\$1,193	\$0	\$0	\$1,271
	0.50	\$7,691	\$4,875	\$1,518	\$14,921
	0.75	\$42,620	\$35,650	\$25,594	\$52,387
	0.90	\$90,609	\$80,862	\$64,295	\$107,847
Liquid Assets	0.10	-\$4,712	-\$3,444	-\$3,549	-\$3,180
	0.25	-\$1,044	-\$719	-\$698	-\$754
	0.50	\$0	\$0	\$0	\$0
	0.75	\$3,145	\$1,739	\$739	\$5,950
	0.90	\$36,373	\$17,235	\$9,990	\$31,949
Out of Labor Force					
		Reservation Wage Not Observed	All	Heads	Wives
Net Worth	0.10	\$0	-\$300	-\$760	\$0
	0.25	\$3,350	\$500	\$0	\$2,437
	0.50	\$35,015	\$10,728	\$781	\$20,070
	0.75	\$90,675	\$49,600	\$20,500	\$61,708
	0.90	\$187,318	\$118,934	\$97,995	\$128,682
Liquid Assets	0.10	-\$2,952	-\$3,040	-\$2,809	-\$3,830
	0.25	-\$386	-\$800	-\$500	-\$1,000
	0.50	\$500	\$0	\$0	\$131
	0.75	\$14,500	\$5,450	\$30	\$8,150
	0.90	\$66,600	\$36,380	\$27,150	\$43,600

TABLE 3: Comparison of Hourly Wages and Reservation Wages
by Demographic Group and Reservation Wage Level

	Full Sample	OLF	Unemployed	OLF Wives	OLF Heads	Unemp. Wives	Unemp. Heads
Reservation Wage (Mean)	\$4.92	\$4.58	\$5.31	\$4.33	\$5.07	\$4.53	\$5.77
% Previous Wage Observed	52.58%	36.03%	71.59%	36.25%	35.63%	68.24%	73.59%
Previous Wage (Mean)	\$6.22	\$5.14	\$6.85	\$4.88	\$5.64	\$5.52	\$7.59
% Accepted Wages Observed	46.60%	36.73%	57.95%	39.23%	31.98%	59.23%	57.18%
Accepted Wage (Mean)	\$5.88	\$4.99	\$6.53	\$4.80	\$5.44	\$5.55	\$7.14
Res. Wage / Prev. Wage	1.01	1.06	0.98	1.06	1.06	1.03	0.95
Res. Wage / Acc. Wage	1.04	1.04	1.04	0.97	1.21	1.05	1.02
Number of Observations	1339	716	623	469	247	233	390

Table 4: Distribution of the Reservation Wage Ratio

Proportion of the Sample with Reservation Wage / Previous Wage Less Than:								
	0.50	0.80	0.90	1.00	1.10	1.20	1.50	2.00
All	0.09	0.32	0.44	0.74	0.79	0.85	0.92	0.95
OLF	0.06	0.21	0.34	0.69	0.76	0.83	0.91	0.94
Unemployed	0.11	0.38	0.50	0.77	0.81	0.86	0.93	0.96
Wives	0.08	0.29	0.43	0.72	0.77	0.83	0.91	0.94
Heads	0.11	0.34	0.46	0.77	0.81	0.86	0.94	0.96
OLF Wives	0.06	0.21	0.35	0.69	0.76	0.82	0.91	0.94
OLF Heads	0.05	0.22	0.34	0.69	0.76	0.84	0.93	0.95
Unemp. Wives	0.09	0.38	0.51	0.74	0.78	0.85	0.91	0.95
Unemp. Heads	0.13	0.38	0.50	0.79	0.83	0.87	0.94	0.97

Proportion of the Sample with Reservation Wage / Accepted Wage Less Than:								
	0.50	0.80	0.90	1.00	1.10	1.20	1.50	2.00
All	0.09	0.31	0.45	0.69	0.76	0.81	0.88	0.94
OLF	0.08	0.27	0.40	0.70	0.77	0.82	0.87	0.95
Unemployed	0.09	0.35	0.48	0.69	0.75	0.80	0.89	0.94
Wives	0.07	0.31	0.43	0.71	0.79	0.86	0.91	0.96
Heads	0.10	0.32	0.46	0.67	0.72	0.75	0.86	0.92
OLF Wives	0.08	0.29	0.41	0.74	0.80	0.86	0.91	0.98
OLF Heads	0.09	0.23	0.37	0.62	0.70	0.72	0.78	0.89
Unemp. Wives	0.06	0.33	0.46	0.68	0.78	0.85	0.90	0.94
Unemp. Heads	0.11	0.35	0.49	0.69	0.73	0.77	0.88	0.94

TABLE 5: Single Equation Estimates of the Reservation Wage Equationⁱ

Measure of Wealth:	Dependent Variable: Log Reservation Wage (robust standard errors in parenthesis)					
	Liquid Net Worth			Total Net Worth		
	OLS	OLS	IV	OLS	OLS	IV
Wealth	0.0181** (0.0079)	0.0190** (0.0079)	0.1421** (0.0669)	0.0212*** (0.0049)	0.0216*** (0.0049)	0.0439* (0.0237)
Wealth×Unemployed	-0.0088 (0.0096)	-0.0089 (0.0096)	-0.0772 (0.0635)	-0.0151** (0.0059)	-0.0150** (0.0059)	0.0015 (0.0253)
Wealth²	-0.0008*** (0.0003)	-0.0008*** (0.0003)	-0.0054* (0.0028)	-0.0006*** (0.0001)	-0.0006*** (0.0001)	-0.0011 (0.0008)
Wealth²×Unemployed	0.0008*** (0.0003)	0.0008*** (0.0003)	0.0048* (0.0027)	0.0006*** (0.0001)	0.0006*** (0.0001)	0.0006 (0.0009)
UI Income	0.3492*** (0.0676)	0.3178*** (0.0686)	0.3152*** (0.0722)	0.3477*** (0.0670)	0.3159*** (0.0680)	0.3017*** (0.0687)
Other Household Income	0.0341*** (0.0092)	0.0346*** (0.0088)	0.0195 (0.0169)	0.0341*** (0.0077)	0.0348*** (0.0076)	0.0234 (0.0162)
Weeks Since Last Worked	0.0005 (0.0027)	0.0009 (0.0027)	0.0021 (0.0035)	0.0008 (0.0027)	0.0011 (0.0027)	0.002 (0.0029)
Weeks Since Last Worked ²	0 (0.0000)	0 (0.0000)	0 (0.0000)	0 (0.0000)	0 (0.0000)	0 (0.0000)
Unemp.×Weeks since Last Worked	-0.0102*** (0.0036)	-0.0108*** (0.0036)	-0.0124*** (0.0045)	-0.0103*** (0.0036)	-0.0110*** (0.0036)	-0.0115*** (0.0039)
Unemp.×Weeks since Last Worked ²	0.0001** (0.0000)	0.0001*** (0.0000)	0.0001** (0.0001)	0.0001** (0.0000)	0.0001*** (0.0000)	0.0001*** (0.0001)
Highest Grade Completed	0.0487*** (0.0053)	0 (0.0000)	0 (0.0103)	0 (0.0054)	0 (0.0000)	0 (0.0098)
Unemployed	0.1475*** (0.0553)	0.1484*** (0.0000)	0 (0.0000)	0 (0.0000)	0.1728*** (0.0561)	0.1357* (0.0795)
Log State Average Wage	0.5310*** (0.1920)	0.5481*** (0.1926)	0.4502** (0.2129)	0.4946** (0.1926)	0.5120*** (0.1933)	0.4560** (0.1998)
State Unemployment Rate	-0.0143** (0.0065)	-0.0145** (0.0065)	-0.009 (0.0076)	-0.0149** (0.0065)	-0.0152** (0.0065)	-0.0129* (0.0069)
Log Consumer Price Index	0.5202* (0.3152)	0.5275* (0.3152)	0.6614* (0.3722)	0.5366* (0.3161)	0.5418* (0.3161)	0.5415 (0.3410)
Held Job in Previous Year	0.1221 (0.1148)	0.0116 (0.1260)	0.0158 (0.1464)	0.1353 (0.1183)	0.0252 (0.1292)	0.1132 (0.1510)
Hours at Previous Job		0.0038*** (0.0014)	0.0050*** (0.0018)		0.0038*** (0.0014)	0.0041*** (0.0016)
Constant	-2.7439** (1.2470)	-2.8056** (1.2462)	-3.1715** (1.5516)	-2.7488** (1.2485)	-2.8017** (1.2473)	-2.6840* (1.4001)
Observations	1339	1339	1339	1339	1339	1339
R-squared	0.3363	0.3423	0.135	0.3417	0.3477	0.2646

ⁱ ***significant at 1% level, **significant at 5% level, *significant at 10% level.

TABLE 6: Single Equation Estimates of the Reservation Wage Equation^{i,ii}

Dependent Variable: Log Reservation Wage

Heads and Wives (Standard Errors in Parenthesis)

	<u>Heads(N=637)</u>				<u>Wives (N=702)</u>			
	Liquid Net Worth		Total Net Worth		Liquid Net Worth		Total Net Worth	
	OLS	IV	OLS	IV	OLS	IV	OLS	IV
Wealth	0.0243 (0.0252)	0.1379 (0.0880)	0.0350** (0.0175)	0.0753 (0.0532)	0.0179** (0.0074)	0.0813* (0.0420)	0.0186*** (0.0047)	0.0422** (0.0167)
Wealth×Unemployed	-0.0165 (0.0334)	-0.0653 (0.1211)	-0.0318 (0.0204)	-0.0511 (0.0598)	-0.0192** (0.0091)	-0.0602 (0.0461)	0.0188*** (0.0059)	-0.0349 (0.0221)
Wealth²	-0.0009 (0.0008)	-0.0060* (0.0033)	-0.0011* (0.0006)	-0.0029* (0.0017)	0.0007*** (0.0002)	-0.0024 (0.0018)	0.0005*** (0.0001)	-0.0009 (0.0005)
Wealth²×Unemployed	0.0037** (0.0019)	0.0073 (0.0079)	0.0019** (0.0008)	0.0042* (0.0023)	0.0008*** (0.0002)	0.0023 (0.0018)	0.0006*** (0.0001)	0.0010* (0.0006)
UI Income	0.3703*** (0.0793)	0.3813*** (0.0856)	0.3720*** (0.0789)	0.3895*** (0.0799)	0.0946 (0.1240)	0.0902 (0.1271)	0.0934 (0.1237)	0.1022 (0.1271)
Other Household Income	0.0595** (0.0256)	0.0356 (0.0353)	0.0514** (0.0242)	0.0351 (0.0371)	0.0295*** (0.0085)	0.0161 (0.0122)	0.0309*** (0.0075)	0.0154 (0.0116)
Constant	-3.7069** (1.8158)	-4.5713** (2.1826)	-3.5011* (1.8480)	-2.8797 (2.0820)	-2.2927 (1.6886)	-1.9804 (1.9513)	-2.3883 (1.6920)	-1.8962 (1.8846)
R-squared	0.3853	0.2796	0.3838	0.3363	0.2667	0.1657	0.2734	0.2138

ⁱ ***significant at 1% level, **significant at 5% level, *significant at 10% level.ⁱⁱ All regressions also control for male, black, male interacted with black, an indicator for children interacted with gender, the state unemployment rate, the log state cpi, the log state average wage, unemployed, a quadratic in duration fully interacted with unemployed, a dummy for, education, a quadratic in experience fully interacted with gender, and indicators for metro area, married, whether the individual has held a job in the last 16 months, and censored duration.

TABLE 7: Simultaneous Equation Estimationⁱ

Full Sample

Measure of Wealth: Liquid Net Worth

Equation:	<i>Log Res. Wageⁱⁱ</i>		<i>Offerⁱⁱⁱ</i>		<i>Wealth^{iv}</i>	
	Coef.	SE.	Coef.	SE.	Coef.	SE.
Wealth^v	0.0682***	0.0262				
Wealth×Unemployed	-0.0131	0.0081				
Wealth²	-0.0009***	0.0002				
Wealth²×Unemployed	0.0009***	0.0002				
UI Income^{vi}	0.3038***	0.0597				
Other Household Income	0.0233***	0.0063				
Hours at Previous Job	0.0030***	0.0010				
Log State Average Wage Rate	0.6216***	0.1402				
Unemployed	0.0977**	0.0495				
Weeks Since Last Worked × Unemployed	-0.0062*	0.0033				
Weeks Since Last Worked	-0.0019	0.0030	-0.0505***	0.0141		
Weeks Since Last Worked Censored	0.1013**	0.0394	0.0833	0.3071		
Metropolitan Area	0.0498**	0.0218	-0.0598	0.1627		
State Unemployment Rate	-0.0154***	0.0059	-0.0877**	0.0444		
Direct Contact			1.0416***	0.3428		
Direct Contact × Head			-0.4405*	0.4446		
Number of Contacts			-0.0191	0.0421		
Number of Contacts × Head			0.0823*	0.0499		
Other Search Methods			1.3004	1.0870		
Other Search Methods × Head			1.1185	-1.1830		
Likely to Search (OLF sample)			0.8728***	0.1849		
Likely to be Recalled to Previous Job			1.9281***	0.5207		
Lagged Household Earnings					0.5508***	0.2052
Lagged Household Unearned Income					0.5668**	0.2480
Lagged UI Benefit Income					0.5561	0.9141
Unemployed (Wave 4) ^{vii}					-0.4512*	0.2426
Weeks Since Last Worked (Wave 4)					0.0482	0.0335
Experience	0.0194**	0.0075	-0.0144	0.0277	0.1202***	0.0377
Experience ²	-0.0003*	0.0002	-0.0002	0.0006	-0.0015*	0.0008
Black	-0.0796	0.0583	-0.6655***	0.2239	-0.3477*	0.1781
Highest Grade Completed	0.0301**	0.0121	0.0712*	0.0410	0.3832***	0.0962
Constant	-0.0843	0.2436	2.1970***	0.5720	-2.6404***	0.8486
$\sigma\epsilon$	0.6353***	0.0429				
$\sigma\nu$	2.1083***	0.2089				
$\rho\epsilon\epsilon$	0.4435***	0.1011				
$\rho\epsilon\nu$	0.0817*	0.0482				
$\rho\epsilon\nu$	-0.5300***	0.1866				

ⁱ ***significant at 1% level, **significant at 5% level, *significant at 10% level

ⁱⁱ The reservation wage equation also includes a quadratic in weeks since last worked interacted with unemployed, and indicators for having children and black interacted with female.

ⁱⁱⁱ The offer equation also includes: Weeks Since Last Employed², black × female, Minimum State Employer U.I. Tax, Maximum State Employer U.I. Tax

^{iv} The wealth equation also includes (all measured as of Wave 4): Any Children, Weeks Since Last Employed², Weeks Since Last Employed Censored, Number of Previous Spells of Unemployment 6 months or longer, Number of Previous Spells of Unemployment 6 months or longer², black × female.

^v Wealth is measured in \$10,000.

^{vi} Unemployment Income and Other Family Income are measured in \$1000.

^{vii} Wealth is measured as of the wave 4 interview, while reservation wage information is collected in the wave 5 interview. Therefore, the values of explanatory variables as of the wave 4 interview are used in the wealth equation.

TABLE 8: Simultaneous Equation Estimationⁱ

Full Sample

Measure of Wealth: Total Net Worth

Equation:	<i>Log Res. Wageⁱⁱ</i>		<i>Offerⁱⁱⁱ</i>		<i>Wealth^{iv}</i>	
	Coef.	SE.	Coef.	SE.	Coef.	SE.
Wealth^v	0.0431***	0.0119				
Wealth^v×Unemployed	-0.0127**	0.0051				
Wealth²	-0.0005***	0.0001				
Wealth²×Unemployed	0.0005***	0.0001				
UI Income^{vi}	0.3021***	0.0595				
Other Household Income	0.0259***	0.0071				
Hours at Previous Job	0.0030***	0.0010				
Log State Average Wage Rate	0.5971***	0.1420				
Unemployed	0.1216**	0.0516				
Weeks Since Last Worked × Unemployed	-0.0065**	0.0033				
Weeks Since Last Worked	-0.0012	0.0029	-0.0455***	0.0134		
Weeks Since Last Worked Censored	0.1090***	0.0377	0.0546	0.2822		
Metropolitan Area	0.0525**	0.0218	-0.0471	0.1639		
State Unemployment Rate	-0.0160***	0.0059	-0.0825*	0.0446		
Direct Contact			1.0578***	0.3336		
Direct Contact × Head			-0.3536	0.4354		
Number of Contacts			-0.0179	0.0401		
Number of Contacts × Head			0.0810*	0.0483		
Other Search Methods			1.0582**	0.4773		
Other Search Methods X Head			0.6504	-1.0130		
Likely to Search (OLF sample)			0.9156***	0.1887		
Likely to be Recalled to Previous Job			1.8161***	0.5341		
Lagged Household Earnings					0.9132***	0.2374
Lagged Household Unearned Income					1.0217*	0.5384
Lagged UI Benefit Income					0.1931	1.2765
Unemployed (Wave 4) ^{vii}					-0.6271*	0.3667
Weeks Since Last Worked (Wave 4)					0.0547	0.0431
Experience	0.0181**	0.0075	-0.0159	0.0270	0.2437***	0.0563
Experience ²	-0.0003*	0.0002	-0.0001	0.0006	-0.0024*	0.0013
Black	-0.0564	0.0603	-0.6535***	0.2198	-1.4287***	0.2793
Education	0.0268**	0.0115	0.0693*	0.0395	0.7663***	0.119
Constant	-0.0988	0.2414	2.0469***	0.5594	-3.3746***	0.9859
σ _ε	0.6147***	0.0252				
σ _v	2.5049***	0.1428				
ρ _{εε}	0.4975***	0.0738				
ρ _{εv}	0.0609	0.0573				
ρ _{εv}	-0.4257***	0.1551				

ⁱ ***significant at 1% level, **significant at 5% level, *significant at 10% level

ⁱⁱ The reservation wage equation also includes the following variables: Any Children, Any Children × Female, Weeks Since Last Employed², Weeks Since Last Employed² × Unemployed, and Black × Female

ⁱⁱⁱ The offer equation also includes the following variables: Weeks Since Last Employed², black × female, Minimum State Employer U.I. Tax, Maximum State Employer U.I. Tax

^{iv} The wealth equation also include the following variables: Any Children in Wave 4, Weeks Since Last Employed² in Wave4, Weeks Since Last Employed in Wave 4 Censored, Number of Previous Spells of Unemployment 6 months or longer, Number of Previous Spells of Unemployment 6 months or longer², black × female.

^v Wealth is measured in \$10,000.

^{vi} Unemployment Income and Other Family Income are measured in \$1000.

^{vii} Wealth is measured as of the wave 4 interview, while reservation wage information is collected in the wave 5 interview. Therefore, the values of explanatory variables as of the wave 4 interview are used in the wealth equation.

TABLE 9: Simultaneous Equation Estimationⁱ

Heads

Measure of Wealth: Liquid Net Worth

Equation:	<i>Log Res. Wageⁱⁱ</i>		<i>Offerⁱⁱⁱ</i>		<i>Wealth^{iv}</i>	
	Coef.	SE.	Coef.	SE.	Coef.	SE.
Wealth^v	0.0798*	0.0435				
Wealth×Unemployed	-0.0185	0.0277				
Wealth²	-0.0012*	0.0007				
Wealth²×Unemployed	0.0031*	0.0018				
UI Income^{vi}	0.3618***	0.0688				
Other Household Income	0.0331*	0.0172				
Hours at Previous Job	0.0037**	0.0016				
Log State Average Wage Rate	0.7016***	0.1973				
Unemployed	0.1169	0.0821				
Weeks Since Last Worked × Une.	-0.0156***	0.0053				
Weeks Since Last Worked	0.0008	0.0049	-0.0647***	0.0211		
Weeks Since Last Worked Censored	0.1396**	0.0593	0.0107	0.3887		
Metropolitan Area	0.0329	0.0324	-0.3622	0.2867		
State Unemployment Rate	-0.0304***	0.0094	-0.1914**	0.0755		
Direct Contact			0.4458	0.4141		
Number of Contacts			0.0648**	0.0323		
Other Search Methods			-0.2621	0.3134		
Likely to Search (OLF sample)			0.7442**	0.3313		
Likely to be Recalled to Previous Job			2.2792***	0.5712		
Lagged Household Earnings					0.4867*	0.2525
Lagged Household Unearned Income					0.3899*	0.2150
Lagged UI Benefit Income					0.1877	0.8268
Unemployed (Wave 4) ^{vii}					-0.4135	0.2582
Weeks Since Last Worked (Wave 4)					0.0429	0.0341
Experience	0.0233***	0.0070	0.0192	0.0355	0.0381	0.0255
Experience ²	-0.0004**	0.0002	-0.0009	0.0009	0.0001	0.0006
Black	-0.0554	0.0602	-1.0111***	0.3042	-0.4134**	0.2075
Education	0.0357**	0.0144	0.0988*	0.0490	0.2412***	0.0622
Constant	-0.1665	0.3605	2.4270**	0.9515	-1.5460***	0.5111
$\sigma\epsilon$	0.6141***	0.0297				
$\sigma\nu$	1.6131***	0.1384				
$\rho\epsilon\epsilon$	0.5812***	0.1077				
$\rho\epsilon\nu$	0.0565	0.1242				
$\rho\epsilon\nu$	-0.3252	0.2634				

ⁱ ***significant at 1% level, **significant at 5% level, *significant at 10% level

ⁱⁱ The reservation wage equation also includes the following variables: Any Children, Any Children × Female, Weeks Since Last Employed², Weeks Since Last Employed² × Unemployed, and Black × Female

ⁱⁱⁱ The offer equation also includes the following variables: Weeks Since Last Employed², black × female, Minimum State Employer U.I. Tax, Maximum State Employer U.I. Tax

^{iv} The wealth equation also include the following variables: Any Children in Wave 4, Weeks Since Last Employed² in Wave4, Weeks Since Last Employed in Wave 4 Censored, Number of Previous Spells of Unemployment 6 months or longer, Number of Previous Spells of Unemployment 6 months or longer², black × female.

^v Wealth is measured in \$10,000.

^{vi} Unemployment Income and Other Family Income are measured in \$1000.

^{vii} Wealth is measured as of the wave 4 interview, while reservation wage information is collected in the wave 5 interview. Therefore, the values of explanatory variables as of the wave 4 interview are used in the wealth equation.

TABLE 10: Simultaneous Equation Estimationⁱ

Heads							
Measure of Wealth: Total Net Worth							
Equation:	<i>Log Res. Wageⁱⁱ</i>		<i>Offerⁱⁱⁱ</i>		<i>Wealth^{iv}</i>		
	Coef.	SE.	Coef.	SE.	Coef.	SE.	
Wealth	0.0558**	0.0252					
Wealth × Unemployed	-0.0207	0.0171					
Wealth ²	-0.0006	0.0006					
Wealth ² × Unemployed	0.0015**	0.0008					
UI Income [†]	0.3538***	0.0684					
Other Household Income	0.0305*	0.0170					
Hours at Previous Job	0.0035**	0.0016					
Log State Average Wage Rate	0.7012***	0.1976					
Unemployed	0.1297**	0.0850					
Weeks Since Last Worked × Une.	-0.0154***	0.0053					
Weeks Since Last Worked	0.0016	0.0048	-0.0660***	0.0216			
Weeks Since Last Worked Censored	0.1476**	0.0601	0.0093	0.4321			
Metropolitan Area	0.0308	0.0320	-0.4031	0.2917			
State Unemployment Rate	-0.031***	0.0093	-0.1990***	0.0753			
Direct Contact			0.4272	0.4113			
Number of Contacts			0.0653**	0.0324			
Other Search Methods			-0.2803	0.3143			
Likely to Search (OLF sample)			0.7669**	0.3341			
Likely to be Recalled to Previous Job			2.2548***	0.5498			
Lagged Household Earnings					0.7855***	0.2641	
Lagged Household Unearned Income					0.6605	0.444	
Lagged UI Benefit Income					-0.1629	1.116	
Unemployed (Wave 4) ^v					-0.4904	0.3906	
Weeks Since Last Worked (Wave 4)					0.0242	0.0484	
Experience	0.0183**	0.0077	0.0180	0.0359	0.1585***	0.0539	
Experience ²	-0.0004**	0.0002	-0.0008	0.0009	-0.0006	0.0013	
Black	-0.0261	0.0636	-0.9841***	0.3056	-1.1544***	0.3017	
Education	0.0265	0.0169	0.0924*	0.0481	0.5684***	0.1071	
Constant	-0.1233	0.3530	2.5160***	0.9594	-2.2111***	0.782	
σ _ε	0.6247***	0.0317					
σ _v	2.0612***	0.0870					
ρ _{εε}	0.6011***	0.0821					
ρ _{εv}	-0.0549	0.0802					
ρ _{εv}	-0.3992*	0.2119					

ⁱ ***significant at 1% level, **significant at 5% level, *significant at 10% level

ⁱⁱ The reservation wage equation also includes the following variables: Any Children, Any Children × Female, Weeks Since Last Employed², Weeks Since Last Employed² × Unemployed, and Black × Female

ⁱⁱⁱ The offer equation also includes the following variables: Weeks Since Last Employed², black × female, Minimum State Employer U.I. Tax, Maximum State Employer U.I. Tax

^{iv} The wealth equation also include the following variables: Any Children in Wave 4, Weeks Since Last Employed² in Wave4, Weeks Since Last Employed in Wave 4 Censored, Number of Previous Spells of Unemployment 6 months or longer, Number of Previous Spells of Unemployment 6 months or longer², black × female.

^v Wealth is measured as of the wave 4 interview, while reservation wage information is collected in the wave 5 interview. Therefore, the values of explanatory variables as of the wave 4 interview are used in the wealth equation.

TABLE 11: Simultaneous Equation Estimationⁱ

Wives							
Measure of Wealth: Liquid Net Worth							
Equation:	<i>Log Res. Wageⁱⁱ</i>		<i>Offerⁱⁱⁱ</i>		<i>Wealth^{iv}</i>		
	Coef.	SE.	Coef.	SE.	Coef.	SE.	
Wealth^v	0.0641**	0.0294					
Wealth×Unemployed	-0.0215***	0.0074					
Wealth²	-0.0008***	0.0002					
Wealth²×Unemployed	0.0009***	0.0002					
UI Income^{vi}	0.0606	0.1059					
Other Household Income	0.0216***	0.0064					
Hours at Previous Job	0.0028**	0.0011					
Log State Average Wage Rate	0.4521***	0.175					
Unemployed	0.0797	0.0624					
Weeks Since Last Worked × Unemployed	0.0020	0.0043					
Weeks Since Last Worked	-0.0016	0.0037	-0.1099	0.0868			
Weeks Since Last Worked Censored	0.0754	0.0484	3.1610*	1.7384			
Metropolitan Area	0.0647**	0.0287	0.4595	0.5519			
State Unemployment Rate	-0.0013	0.0074	0.0810	0.1991			
Direct Contact			1.3147*	0.7184			
Number of Contacts			0.1100	0.0975			
Other Search Methods			1.7967	1.4238			
Likely to Search (OLF sample)			2.7908*	1.5583			
Likely to be Recalled to Previous Job			2.9828*	1.8120			
Lagged Household Earnings					0.6014**	0.2406	
Lagged Household Unearned Income					0.7179	0.4897	
Lagged UI Benefit Income					3.5203**	1.7043	
Unemployed (Wave 4) ^{vii}					-0.3767	0.3735	
Weeks Since Last Worked (Wave 4)					0.0406	0.0573	
Experience	0.0039	0.0076	0.0252	0.0806	0.1888***	0.0689	
Experience ²	-0.0002	0.0002	-0.0018	0.0022	-0.0030*	0.0016	
Black	0.0012	0.0444	0.3104	0.7032	-0.7484**	0.2927	
Education	0.0215	0.0186	0.1562	0.1400	0.5090***	0.1777	
Constant	0.0269	0.2803	4.6917	2.8799	-3.3669**	1.4049	
$\sigma\epsilon$	0.6416***	0.0753					
$\sigma\nu$	2.3568***	0.2758					
$\rho\epsilon\epsilon$	0.3565**	0.1528					
$\rho\nu\nu$	0.1063*	0.0632					
$\rho\epsilon\nu$	-0.6262***	0.2321					

ⁱ ***significant at 1% level, **significant at 5% level, *significant at 10% level

ⁱⁱThe reservation wage equation also includes the following variables: Any Children, Any Children × Female, Weeks Since Last Employed², Weeks Since Last Employed² × Unemployed, and Black × Female

ⁱⁱⁱThe offer equation also includes the following variables: Weeks Since Last Employed², black × female, Minimum State Employer U.I. Tax, Maximum State Employer U.I. Tax

^{iv}The wealth equation also include the following variables: Any Children in Wave 4, Weeks Since Last Employed² in Wave4, Weeks Since Last Employed in Wave 4 Censored, Number of Previous Spells of Unemployment 6 months or longer, Number of Previous Spells of Unemployment 6 months or longer², black × female.

^vWealth is measured in \$10,000.

^{vi}Unemployment Income and Other Family Income are measured in \$1000.

^{vii} Wealth is measured as of the wave 4 interview, while reservation wage information is collected in the wave 5 interview. Therefore, the values of explanatory variables as of the wave 4 interview are used in the wealth equation.

TABLE 12: Simultaneous Equation Estimationⁱ

Equation:	Wives					
	Measure of Wealth: Total Net Worth					
	<i>Log Res. Wageⁱⁱ</i>		<i>Offerⁱⁱⁱ</i>		<i>Wealth^{iv}</i>	
	Coef.	SE.	Coef.	SE.	Coef.	SE.
Wealth^v	0.0355***	0.0116				
Wealth×Unemployed	-0.0192***	0.0052				
Wealth²	-0.0005***	0.0001				
Wealth²×Unemployed	0.0006***	0.0001				
UI Income^{vi}	0.0766	0.1039				
Other Household Income	0.0266***	0.0072				
Hours at Previous Job	0.0029**	0.0011				
Log State Average Wage Rate	0.4468**	0.1883				
Unemployed	0.125*	0.0663				
Weeks Since Last Worked × Unemployed	0.0012	0.0043				
Weeks Since Last Worked	-0.0009	0.0036	-0.0382	0.0953		
Weeks Since Last Worked Censored	0.0745	0.0472	0.9509	1.8488		
Metropolitan Area	0.0719**	0.0281	0.4951	0.5967		
State Unemployment Rate	-0.0032	0.0077	-0.0853	0.3666		
Direct Contact			1.8908	2.8383		
Number of Contacts			0.0879	0.2232		
Other Search Methods			1.2871	1.1887		
Likely to Search (OLF sample)			3.0637**	1.1913		
Likely to be Recalled to Previous Job			3.7068***	1.3575		
Lagged Household Earnings					0.9782***	0.2912
Lagged Household Unearned Income					2.0917**	0.8287
Lagged UI Benefit Income					3.9104	2.8709
Unemployed (Wave 4) ^{vii}					-0.5051	0.6492
Weeks Since Last Worked (Wave 4)					0.0701	0.0721
Experience	0.0058	0.0065	0.0402	0.1498	0.3293***	0.0986
Experience ²	-0.0002	0.0001	-0.0017	0.0040	-0.0042*	0.0024
Black	0.0191	0.0501	0.3141	0.9495	-2.6776***	0.5578
Education	0.0265*	0.0140	0.1229	0.1352	0.911***	0.1949
Constant	-0.0712	0.3040	2.3918	1.6182	-3.7234**	1.647
$\sigma\epsilon$	0.5911***	0.0306				
$\sigma\nu$	2.7463***	0.1967				
$\rho\epsilon\epsilon$	0.4639***	0.0975				
$\rho\epsilon\nu$	0.0998	0.0675				
$\rho\epsilon\nu$	-0.3930*	0.2124				

ⁱ ***significant at 1% level, **significant at 5% level, *significant at 10% level

ⁱⁱ The reservation wage equation also includes the following variables: Any Children, Any Children × Female, Weeks Since Last Employed², Weeks Since Last Employed² × Unemployed, and Black × Female

ⁱⁱⁱ The offer equation also includes the following variables: Weeks Since Last Employed², black × female, Minimum State Employer U.I. Tax, Maximum State Employer U.I. Tax

^{iv} The wealth equation also include the following variables: Any Children in Wave 4, Weeks Since Last Employed² in Wave4, Weeks Since Last Employed in Wave 4 Censored, Number of Previous Spells of Unemployment 6 months or longer, Number of Previous Spells of Unemployment 6 months or longer², black × female.

^v Wealth is measured in \$10,000.

^{vi} Unemployment Income and Other Family Income are measured in \$1000.

^{vii} Wealth is measured as of the wave 4 interview, while reservation wage information is collected in the wave 5 interview. Therefore, the values of explanatory variables as of the wave 4 interview are used in the wealth equation.

TABLE 13: The Effects of Changes in Wealth on Reservation Wages and Transition Probabilitiesⁱ

Total Net Worth						
	Full Sample		Heads		Wives	
	<i>UNE</i>	<i>OLF</i>	<i>UNE</i>	<i>OLF</i>	<i>UNE</i>	<i>OLF</i>
Average Total Net Worth	\$30,483.30	\$45,371.66	\$20,887.07	\$26,457.91	\$46,193.93	\$46,471.57
Average Reservation Wage	\$5.31	\$4.54	\$5.79	\$4.93	\$4.52	\$4.33
Elasticity of Reservation Wage with respect to Total Net Worth:	0.093	0.154	0.081	0.139	0.078	0.143
A \$10,000 increase in Total Net Worth increases reservation wages by:	\$0.164 (3.09%)	\$0.222 (4.90%)	\$0.174 (3.00%)	\$0.303 (6.14%)	\$0.071 (1.57%)	\$0.180 (4.16%)
Probability of Transition (at the mean)	0.772	0.461	0.838	0.361	0.395	0.367
Elasticity of Transition with respect to Total Net Worth (at the mean)	-0.106	-0.233	-0.068	-0.224	-0.252	-0.498
Liquid Net Worth						
	Full Sample		Heads		Wives	
	<i>UNE</i>	<i>OLF</i>	<i>UNE</i>	<i>OLF</i>	<i>UNE</i>	<i>OLF</i>
Average Liquid Net Worth	\$8,799.10	\$11,528.07	\$4,279.08	\$8,641.86	\$16,199.15	\$13,027.90
Average Reservation Wage	\$5.31	\$4.54	\$5.79	\$4.93	\$4.52	\$4.33
Elasticity of Reservation Wage with respect to Liquid Net Worth:	0.048	0.076	0.027	0.067	0.070	0.081
A \$10,000 increase in Liquid Net Worth increases reservation wages by:	\$0.301 (5.66%)	\$0.334 (7.36%)	\$0.335 (5.79%)	\$0.428 (7.77%)	\$0.195 (4.29%)	\$0.300 (6.91%)
Probability of Transition (at the mean)	0.777	0.471	0.840	0.357	0.400	0.375
Elasticity of Transition with respect to Liquid Net Worth (at the mean)	-0.055	-0.115	-0.023	-0.108	-0.223	-0.280

ⁱ The values in this table are computed using the mean values of the variables and the parameter values in Tables 7-12.

TABLE 14: Search Methods
 Unemployed Job Seekers, 1984 SIPP
 Heads and Wives

		Heads	Wives	Men	Women
Number of Observations:	623	418	205	241	382
Search Methods:					
Contacting Employers	91.17%	91.03%	91.42%	90.46%	91.62%
Number of Contacts	7.21	8.26	5.44	9.28	5.90
Unemployment Office	3.85%	3.85%	3.86%	2.90%	4.45%
Private Agency	0.48%	0.26%	0.86%	0.41%	0.52%
Friends and Relatives	3.37%	3.85%	2.58%	3.73%	3.14%
Other Methods	5.62%	6.67%	3.86%	7.47%	4.45%
	623	390	233	241	382

TABLE 15: Effects of Wealth and Income on Search Intensityⁱ

Poisson Regression

Dependent Variable: Number of Employers Contacted

(standard errors in parenthesis)

	Liquid Net Worth			Total Net Worth		
	Full Sample	Heads	Wives	Full Sample	Heads	Wives
	(1)	(2)	(3)	(4)	(5)	(6)
Wealth	-0.002 (0.0032)	0.0111 (0.0081)	-0.0090** (0.0042)	-0.0073*** (0.0028)	-0.0156*** (0.0052)	-0.0076** (0.0033)
Get UI	0.2953*** (0.0598)	0.3420*** (0.0725)	0.1423 (0.1229)	0.2910*** (0.0599)	0.3353*** (0.0729)	0.125 (0.1233)
UI Income	0.0008 (0.0979)	-0.0129 (0.1122)	0.5803** (0.2603)	-0.0033 (0.0980)	-0.0309 (0.1128)	0.6112** (0.2609)
Other Household Income	-0.0076 (0.0171)	-0.1662*** (0.0277)	0.1229*** (0.0231)	0.0033 (0.0173)	-0.1493*** (0.0281)	0.1281*** (0.0236)
Weeks Since Last Worked	0.0039 (0.0027)	0.0125*** (0.0033)	-0.0190*** (0.0051)	0.0035 (0.0027)	0.0118*** (0.0033)	-0.0188*** (0.0051)
Weeks Since Last Worked ²	-0.0001** (0.0000)	-0.0002*** (0.0000)	0.0002** (0.0001)	-0.0001** (0.0000)	-0.0002*** (0.0000)	0.0002** (0.0001)
Experience	-0.0053 (0.0053)	-0.0117* (0.0064)	0.0163 (0.0117)	-0.0043 (0.0053)	-0.0110* (0.0064)	0.0169 (0.0118)
Experience ²	-0.0001 (0.0001)	0.0001 (0.0002)	-0.0007** (0.0003)	-0.0001 (0.0001)	0.0002 (0.0002)	-0.0007** (0.0003)
Part Time at Last Job	-0.6264*** (0.0702)	-0.6712*** (0.1038)	-0.5691*** (0.1006)	-0.6295*** (0.0701)	-0.6817*** (0.1037)	-0.5590*** (0.1002)
Highest Grade Completed	0.0706*** (0.0074)	0.0854*** (0.0092)	0.0670*** (0.0145)	0.0742*** (0.0075)	0.0968*** (0.0092)	0.0678*** (0.0146)
Metropolitan Area	0.1413*** (0.0388)	0.2506*** (0.0470)	-0.0729 (0.0738)	0.1353*** (0.0389)	0.2307*** (0.0470)	-0.0824 (0.0738)
Active Search Requirement	0.0135 (0.0200)	-0.0388 (0.0237)	0.1223*** (0.0385)	0.0124 (0.0200)	-0.0440* (0.0238)	0.1173*** (0.0384)
State Unemployment Rate	-0.0121 (0.0117)	-0.0127 (0.0144)	-0.0316 (0.0204)	-0.0113 (0.0117)	-0.0138 (0.0145)	-0.0317 (0.0204)
Consumer Price Index	0.0085* (0.0045)	0.0015 (0.0052)	0.0099 (0.0100)	0.0097** (0.0045)	0.0041 (0.0053)	0.0105 (0.0100)
State Average Wage	0.07 (0.0469)	0.1856*** (0.0551)	-0.1487 (0.0985)	0.0662 (0.0470)	0.1784*** (0.0558)	-0.1464 (0.0983)
Any Kids	-0.0229 (0.0400)	0.1216** (0.0474)	-0.4223*** (0.0813)	-0.026 (0.0400)	0.1128** (0.0474)	-0.4271*** (0.0813)
Any Kids Under 6	0.1031*** (0.0201)	0.0909*** (0.0251)	0.1368*** (0.0358)	0.1028*** (0.0201)	0.0910*** (0.0251)	0.1402*** (0.0356)
Married	-0.0819 (0.0507)	-0.0394 (0.0536)		-0.0856* (0.0508)	-0.0383 (0.0536)	
Male	0.3134*** (0.0545)	0.3921*** (0.0565)		0.3151*** (0.0545)	0.3966*** (0.0564)	
Head	0.1044 (0.0660)			0.0956 (0.0661)		
Black	-0.0913** (0.0463)	-0.1028** (0.0524)	-0.126 (0.1049)	-0.0964** (0.0463)	-0.1103** (0.0523)	-0.1332 (0.1050)
Constant	-0.357 (0.3374)	-0.6309 (0.3925)	1.2829* (0.6929)	-0.4796 (0.3403)	-0.9471** (0.3974)	1.2188* (0.6970)
Number of Observations	623	390	233	623	390	233

ⁱ ***significant at 1% level, **significant at 5% level, *significant at 10% level.