

Mobility of Heterogeneous Workers in the European Union

Riccardo Franceschin* & Joseph-Simon Görlach†

September 2020

Abstract

In the presence of price rigidities, labor migration can help to mitigate the burden of asymmetric shocks across countries in a currency union. However, heterogeneity in workers' productivity and their preference for migration may thwart the potential of labor mobility to absorb asymmetric shocks. We develop a dynamic equilibrium model in which firms match with workers of different skill levels and taste for different countries. We calibrate this model to data from the European Labour Force Survey, and find that migration primarily mitigates the effects of a negative shock on labor market outcomes for high skilled workers, whereas negative effects on wages may actually be amplified for low skilled workers.

Keywords: international migration, optimal currency areas, workers heterogeneity

JEL codes: F22, F41, F45, J61

*Bocconi University

†Bocconi University, BIDS, CReAM, IGER and LEAP