Working Papers on Economics - Determinants of structural unemployment in Colombia. A search approach

Working Paper No. 969 Keep in mind
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This paper is aimed to identify the main determinants of the structural unemployment rate (SUR) in Colombia. To this end, we initially look up theoretical determinants of structural unemployment as defined by a basic search and matching model. Then, we estimate different measures of the SUR including the one that emerges from the search-theoretic. Next, we test empirically each of the determinants in the Colombian case. We find that the main explanations of structural unemployment rate (SUR) in Colombia are; the real minimum wage, the real interest rate, a hiring cost indicator, sectoral shifts, non-wage labour costs, and some demographic factors such as the proportion of male, workers between 46 and 56 years old, and workers with no college education in the labour force. Finally, we use these variables to estimate the structural unemployment rate. Given the time series properties of the variables we applied a cointegrating approach with the Fully Modified Ordinary Least Squares (FMOLS) method which allows us to take into account the endogeneity of the vacancy rate.

Fuente: https://www.banrep.gov.co/en/borrador-969