

[IZA News](#)[About IZA](#)[Organization Chart](#)[People](#)[Research](#)[Labor Policy](#)[Publications](#)[Discussion Papers](#)[Policy Papers](#)[Standpunkte](#)[Books](#)[Research Reports](#)[IZA Compact](#)[IZA in the Press](#)[Publication Record](#)[Journals](#)[Events](#)[IZA Prize / YLE Award](#)[Teaching](#)[Links / Resources](#)[Press](#)

# IZA



## Elasticity of Supply to the Firm and the Business Cycle

by Briggs Depew, Todd Sorensen  
(August 2011)

### Abstract:

A body of recent empirical work has found strong evidence that the labor elasticity of supply to the firm is finite, implying that firms may have wage setting power. However, these studies capture only snapshots of the parameter. We study this parameter over a period that provides substantial variation in the business cycle. Using a rich employee level dataset from the inter-war period, we are able to estimate the elasticity of supply to the firm during several recessions and expansions. Our analysis suggests that the elasticity is indeed lower during recessions, consistent with the comparative statics from the Burdett-Mortensen search model. This differential wage setting power over the business cycle provides an alternative explanation of the pro-cyclicality of wages.

**Text:** See [Discussion Paper No. 5928](#)



[Back](#)