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Demography, Capital Flows and Unemployment

by Luca Marchiori, Olivier Pierrard, Henri R. Sneessens
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Abstract:

This paper contributes to the already vast literature on demography-induced international capital flows by examining the role of labor market imperfections and institutions. We setup a two-country overlapping generations model with search unemployment, which we calibrate on EU15 and US data. Labor market imperfections are found to significantly increase the volume of capital flows, because of stronger employment adjustments in comparison with a competitive economy. We next exploit the model to investigate how demographic asymmetries may have contributed to unemployment and welfare changes in the recent past (1950-2010). We show that a policy reform in one country also has an impact on labor markets in other countries when capital is mobile.

Text: See [Discussion Paper No. 6094](#)



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