Discussion of: “Assortative Learning” by Eeckhout and Weng

Giuseppe Moscarini
Yale and NBER
Recap

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new boundary condition: No-Deviation condition equates second derivatives of the value function
Comments

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- additional (more interesting) extensions
Contributions

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\[ R_1 p(1-p) f(H(p)) dp \]

proof of Lemma 6 missing
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can explain the U-shapes of occupational mobility, in fact similar to the “mini-model" in that paper.
Technical issue: optimal switching, not optimal stopping

- stopping problem: *given functions* $u$ *and* $U$, choose a (continuation) set $C$ such that the stopping time
  
  $$ T = \inf \{ t > 0, p_t \not\in C \} $$

  maximizes

  $$ W(p_0, T) = E \left[ \int_0^T u(p_t) \, dt + U(p_T) \mid p_0 \right] $$
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- In this labor market model, circularity: $u$ is well-behaved (wage function), but stopping value $U$ is not known, it is itself a value function of another stopping problem.
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could it be that true maximized values are another fixed point, which is not a $C^2$ pair? so cannot be found by ODE methods?
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in standard stopping problem, $U$ is given, and then smooth pasting is necessary. Not here. Transition is not irreversible. Switching problem, not stopping problem. Smooth pasting can be derived by alternative method
Extensions

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- **job creation costs** create information externality and free-riding problem: let competitors try out a worker, pay the cost of drawing bad workers, and cherry pick the good workers. Connection to strategic experimentation literature.