Discussion of: *"Assortative Learning" by Eeckhout and Weng*

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Yale and NBER

Recap

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- speed of learning in different types of firms irrelevant for this conclusion
- new boundary condition: No-Deviation condition equates second derivatives of the value function

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- additional (more interesting) extensions

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- proof of Lemma 6 missing

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- not as rich as those of Papageorgiou's model: for example, without unemployment, cannot predict which unemployed goes where based on labor market history
- 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

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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 $\mathbb{C}^2$ pair? so cannot be found by ODE methods?
- 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

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  - low p_0 people stuck in dead end jobs, learn nothing: application to labor market discrimination
- **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.