

Macroeconomic shocks and the probability of being employed¹

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Abstract

Macroeconomic theories take polar views on the importance of choice versus chance. At the micro level, it seems realistic to assume that both dimensions play a role for individual employment outcomes, although it might be difficult to separate these two effects. Nevertheless the choice and chance dimension are seldom treated symmetrically in models that use micro data. We estimate a logistic model of the probability of being employed among married or cohabitating women that are in the labour force. Besides variables that measure individual characteristics (choice), we allow a full set of indicator variables for observation periods that represent potential effects of aggregate shocks (chance) on job probabilities. To reduce the number of redundant indicator variables automatic model selection is used, and we assess the economic interpretation of the statistically significant indicator variables with reference to a theoretical framework that allows for friction in the Norwegian labour market. In addition, we also estimate models that use female and male unemployment rates as ‘sufficient’ variables for the chance element in individual employment outcomes. Data are for Norway and span the period 1988q2–2008q4.

Keywords: Job probability; Automatic model selection; Random utility modeling

JEL classification: C21, J21, J64

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¹An earlier version of this paper has been presented at the Research seminar of the Department of Economics, University of Oslo 14 October 2011, and at the Econometric workshop arranged by the Institute for New Economic Thinking at the Oxford Martin School, 29 October 2011. We would like to thank workshop and seminar participants for comments and discussion. In particular, we thank Arvid Raknerud for detailed and valuable comments.

1. Introduction

In a situation with real wage flexibility and no frictions in the labour market, individuals' probabilities for work and unemployment may be expected to be unaffected by macroeconomic shocks that are common to a large number of workers. However, it is realistic to assume that real world labour markets are characterized by many frictions, and the relevant question is therefore whether individuals are able to adapt in ways that offset the effects of aggregate shocks on their work prospects. If the probabilities for unemployment and work for a large number of workers are affected by aggregate shocks and fluctuations (frictions), the role for countercyclical macroeconomic policies is stronger than if friction effects are empirically irrelevant. Thus, this question is relevant for policy designs.

In macroeconomic theory, the standard real business cycle (RBC) model and the search theoretical model represent polar views on the issue about labour market frictions and about the importance of chance versus choice, see Krusell et al. (2010). In the frictionless models in the tradition of Kydland and Prescott (1982), changes in employment are explained by individual choice. In macroeconomic search models of the Mortensen and Pissarides (1994, 2011) type, the emphasis is on chance rather than on choice, in the sense that changes in employment reflect changes in the probability of receiving a job offer.

In an econometric model of the probability of being employed given that the agent is in the labour force it is unattractive to impose the dichotomy between chance and choice *a priori*, since it seems realistic to assume that both dimensions can play a role for individual employment outcomes. Nevertheless, in the literature on microeconomic modeling of labour market behavior, the custom is to concentrate on the choice aspect as captured by measured individual characteristics. That said, Dagsvik et al. (2012) report results where their model besides choice variables contains year-dummies that are intended to capture effects stemming from the business cycle. In this paper, we treat the choice and chance dimension symmetrically in the unrestricted model formulation, and we test econometrically, for married and cohabitating women in the work force, the hypothesis that the probability of being employed depends on the business cycle.

Our test is based on the assumption that if chance matters, fortunate and unfortunate episodes will be linked to fluctuations at the aggregate level of the economy. The data set is a sample of independent cross-sections for married and cohabitating women in the Norwegian labour force covering the period from 1988q2 to 2008q4.² The reason for focusing on married and cohabitating women is that empirical analyses typically find that the labour market behavior of these women are more responsive to policy changes than their male partners. One important reason is that a large proportion of women in this group continue to take the main responsibility for family and children,

² Realistically, the results can to some degree be sample dependent. We therefore also make use of a second data set that has been sampled in the same manner as the first one.

and thus they have stronger preferences for home work. Since their male partner is participating in the labour market in most cases, household incomes do not drop to zero even if the female is not working, and the woman is not forced to accept the first job offer she receives. She might continue search in order to get a better job. The fact that we are employing data for persons in the workforce may be interpreted as a strong test of the importance of frictions, since such persons have a strong tie to the labour market from the outset.

In our sample there are 82 potential periods in which macroeconomic shocks might occur. Since the number of observations is large (50,487) we might in principle estimate a general model that includes a dummy variable for each potential break together with the variables that measure individual attributes (education length and the number of children in different age groups for example). However, all periods in the sample are not likely to be equally important when it comes to friction. The methodological task is therefore to find the significant calendar dummies objectively, and to retain in the final model only those dummies that represent significant frictional effects of macroeconomic shocks. We use the computer based automatic model selection algorithm Autometrics (see Doornik, 2009) as our tool in the testing of the hypothesis that aggregate shocks (as represented by dummies) have no effect on the individual probability of being employed.

As a background, it is interesting to note that although Norway is often regarded as an “oil-driven” economy that is characterized by even growth, our sample contains periods where there have been large changes in job-creation and job-destruction. At the start of our sample, in 1988, employment growth was still positive, following the credit led boom that started in 1983. During 1988 the housing market did however collapse and real house prices fell by 40 percent from the first quarter of 1988 to the first quarter of 1993. There was a major banking crisis, and the first years of the 1990s were marked by financial consolidation among households and by low growth. During this period there was a sharp rise in the aggregate unemployment rate, and unemployment spells became longer, as the graphs in Figure 1 below shows. Employment growth also became weak and negative during the first five years of the new millennium, but then a period with unprecedented high employment growth started in 2005. A significant part of the increase in employment was made up of temporary as well as more permanent immigration of workers from East Europe, for instance Poland and the Baltic States. Our sample ends at the start of the international financial crisis, and a drop in the growth rate is visible at that point.

Looking at the literature, we find that several studies focus on the relative importance of job creation and job destruction rates as determinants of unemployment duration. As summarized by Hall (2005), missing job opportunities for unemployed persons are more important than elevated separation rates in explaining increased unemployment rates during periods of recessions. Our data do not allow us to study the effects of job creation and job separation rates or unemployment duration since we do

not have repeated cross section data. As already noted, our focus is on the relative importance of chance versus choice as determinants of individual unemployment. Our data are particularly suited for this type of analysis since we have data for a fairly long time period covering several business cycles. To the best of our knowledge we are the first study analyzing this aspect of unemployment.

The rest of the paper is organized as follows: In Section 2 we give our model and state our hypotheses. A description of the data set is given in Section 3. Section 4 is devoted to automatic model selection. Our empirical results are reported in Sections 5–10. Section 11 concludes. Appendix A contains summary statistics for our main data set, whereas Appendix B contains some results related to Sections 9 and 10.

2. Logit model with variables representing frictions

As noted above, it is of interest to investigate whether the probability of being unemployed depends on macroeconomic fluctuations or intermittent shocks that are exogenous to the individual, but common to all employed and job-seeking married and cohabitating women. With reference to a theoretical model that includes the separation probability and the employment opportunity arrival rate, one way to introduce aggregate shocks is to allow both of the two rates to be non-constant as a result of macroeconomic events. In the following we refer to such variations as *frictions*, cf. Krusell et al. (2010).

We investigate the friction hypothesis econometrically within the framework of a standard logit model. Assume the agent is searching for employment. When receiving a particular job offer, the agent compares the utility of the arriving job offer and the expected utility of continued search. In this comparison the female uses her perceptions about the job arrival rate and job separation rate. These rates depend on the skills of the agent (education and work experience), the functioning of the labour market including exogenous shocks and business cycles. In addition, comparisons of utilities are influenced by the agent's non-labour income and the number of children in different age groups in the family. A dummy variable for central residence is introduced to consider that the job arrival rate might be higher in urban areas.

Let q_{it}^* be the difference between the utility of the arriving job offer and the expected utility of continued search. Alternatively, q_{it}^* might as well be interpreted as the log of the odds ratio. In what follows we will assume that this difference can be modelled as

$$q_{it}^* = X_{1it}\delta_1 + X_{2it}\delta_2 + \varepsilon_{it}, \quad (1)$$

where X_1 includes years of schooling, experience, experience squared, number of children in three age groups,³ a binary variable for urbanity and the logarithm of real non-labour income and with δ_1 as the corresponding vector of coefficients (including an intercept). Moreover, X_2 is a (row-)vector consisting of variables that capture joint fluctuations in the employment opportunity arrival rate and the job separation rate (at present, we have no ambition of identifying separate effects of the two friction parameters), and δ_2 denotes the associated parameter vector. ε denotes a random error term that is included to capture the effects of variables that are latent to the researcher, but known by the agent.

While q_{it}^* is a latent variable that cannot be observed in our data, what we observe is whether the female is employed (job offer is accepted) or unemployed (job offer is not accepted). Therefore, what we observe is the indicator variable

$$\begin{aligned} q_{it} &= 1 && \text{if } q_{it}^* > 0 \\ q_{it} &= 0 && \text{otherwise.} \end{aligned} \quad (2)$$

Assuming ε is logistically distributed, the probability of being employed given that the female is in the labour force (q), is given by the well known logit model,

$$q_{it} = \frac{1}{1 + \exp(-X_{1it}\delta_1 - X_{2it}\delta_2)}, \quad (3)$$

cf. Dagsvik, Kornstad and Skjerpen (2012) for a similar specification. Alternatively, the model can be written with $1 - q_{it}$ on the left-hand side, which is the probability of being unemployed for agents with characteristics X_1 who experience the macroeconomic shock represented by a significant element in X_2 . In both interpretations of the model, the null hypothesis we test is $H_0: \delta_2 = 0$.

In the following we make use of two alternative model specifications for estimating the effects of aggregate shocks. First, we include dummies for each period (quarterly data) of observation. In practice this leads to a model with 91 parameters which is not in itself a problem since we have more than 50K observations in each of the two data sets that we use. In principle, in the case of no friction, we should be unable to reject the hypothesis $H_0: \delta_2 = 0$ at the usual level of significance.

In the case of rejection of the null hypothesis, it is of interest to take the analysis one step further and investigate whether there is a sub-set of impulse dummies which explains the rejection. In fact this is theoretically reasonable, since it seems unlikely that the seekers of (new) jobs are at all times equally affected by friction. We therefore perform a model reduction by sifting out the significant dummy variables from the insignificant ones. In order to do the general-to-specific (GETS) modeling

³ The three age groups we consider are 0-3 years, 4-6 years and above 6 years.

in an objective way (that can be replicated) we make use of the automatic modeling feature of PcGive, see Doornik and Hendry (2009). This approach is discussed in Section 4 below, and the results are reported in Sections 5–10.

The second approach is more direct, and is based on representing the fluctuations with the aid of one, or a few, observed macro variables which are correlated with the changes in both the employment opportunity arrival rate and the separation rate. In this paper we have used macro unemployment rates for women and men, see Section 7.

In the case of rejection of the null hypothesis of no friction, it is of interest to assess the numerical significance of the retained dummies. We are interested in their estimated impact on the employment probability of an individual married or cohabitating woman with given characteristic, but also the aggregated implications in the form of expected increase in unemployment. Clearly, even if the changes in the individual probabilities are quite tiny, the expected change in the number of unemployed persons might be significant and thus more interesting from a practical point of view.

We report results for estimation on two samples of independent cross-sections for married and cohabitating women in Norway, covering the period 1988q2 to 2008q4. In the next section, we give a description of the main data set, whereas the second one is regarded more as a supplementary data set.

3. The data sets

The data set was obtained by merging the Labour Force Survey (LFS) 1988–2008 with three different register data sets—the Tax Register for personal tax payers, the Tax Return Register and the National Education database—with additional information about incomes, family composition and education.⁴ While the Tax Return Register is our primary source of information about incomes and family formation covering the years 1993–2008, we have also included data from the Tax Register for the years 1988–1992 in order to include a period of more fluctuations in the unemployment rate.

The classification in the LFS is based on answers to a broad range of questions. Persons are asked about their attachment to the labour market during a particular week. For a person to be defined as unemployed, she must not be employed in the survey week, she must have been seeking work actively during the preceding four weeks, and she must wish to return to work within the next two weeks.

Unfortunately, the Tax Register for personal taxpayers does not include very detailed information about different types of incomes. We have chosen to use a measure of non-labour income that includes salaries of the husband as well as stipulated labour incomes for self-employed husbands. The nominal non-labour income variable is deflated by the official Norwegian consumer price index, with 1998 as the base year.

⁴ This is possible owing to a system with unique personal identification numbers for every Norwegian citizen.

Education is measured in years of achieved level of schooling and (potential) experience is defined as age minus schooling minus age at school start. An area is defined as densely populated if at least 200 persons live in the area and the distance from one house to another normally is less than 50 meter. The age distribution of the children is considered by measuring the number of children aged 0–3 years, 4–6 years and 7–18 years, respectively.

Only married or cohabiting females ranging in age between 25 and 60 years are included in the sample. The motivation for this age restriction is that education is an important activity for women younger than 25 years, and that for those older than 60 years, early retirement is rather frequent.⁵ From this sample we have also excluded self-employed women and women without non-labour income or with very high non-labour income (more than one million NOK in real terms).

In the estimations we apply two different samples in order to illustrate some aspects of sample variability effects and robustness. The actual samples we use are a subset of the LFS and consist of independent cross-sections for all quarters from 1988q2 to 2008q4. Both samples are selected such that each woman is observed in one quarter only, i.e., there is no dependency over time among records due to repeated observations of a particular woman. Choice of quarter is randomly determined.

The first sample (Sample I) obtained by this procedure includes 50,487 females to be used in the estimation of the logistic regression. Out of these 1,202 females are unemployed. Appendix A provides additional information about this sample.

Since Sample I was randomly drawn from a much larger sample where each female can be observed several times, it is possible to draw a second sample (Sample II) with the same females as in Sample I, but where the females might be observed in a different period.⁶ The reason we do this is to investigate how robust the obtained empirical results are using the first data set. Sample II shows no noteworthy differences in the characteristics of the persons from Sample I. The number of observations in the two samples are similar: There are 200 fewer observations in Sample II, which is mainly due to the variation in the females' labour market participation over time..

In addition to the individual specific variables described above, in some of the estimations we also introduce the macro unemployment rates for females and/or males. These variables are constant across all individuals observed in the same time period in the sample, but vary across quarters.⁷ Figure 1 displays the unemployment rates over our sample period. In 1989 and 1990 the two unemployment

⁵ Norway has an early retirement program for workers. It was introduced for the first time in 1988, originally only for 66 years old workers working in firms that were participating in the program. Today the program covers most workers aged 62–66 years.

⁶ Since one of the aims of the current paper is to conduct model selection using Autometrics and since this routine does not handle logit models for panel data with discrete response variables, we retain only one observation for each observational unit and do not utilize the panel data dimension in our analysis.

⁷ Data on the macro unemployment rates are provided by the macro economic research group, Statistics Norway. They only cover persons aged 25-59 years, but in addition to married/cohabiting persons they also include observations on single persons.

rates rose from very low levels. This was the time of major credit and banking crisis in Norway, collapse in the housing market (real prices fell by 42 percent from 1988q1 to 1993q1), financial consolidation among households, see Kindleberger and Aliber (2005, Ch. 1), and later also a decline in the most important export markets. It is interesting to note though that after the initial rise, the female unemployment percentage levelled off long before the male unemployment percentage. On the other hand, it also took a longer time of economic recovery before the female rate fell decisively in 1996. Both rates increased gradually from 2000 to 2005, and then there was a very marked decline in both rates in the years before the financial crisis in 2008. This was a period of almost unprecedented employment growth in Norway.

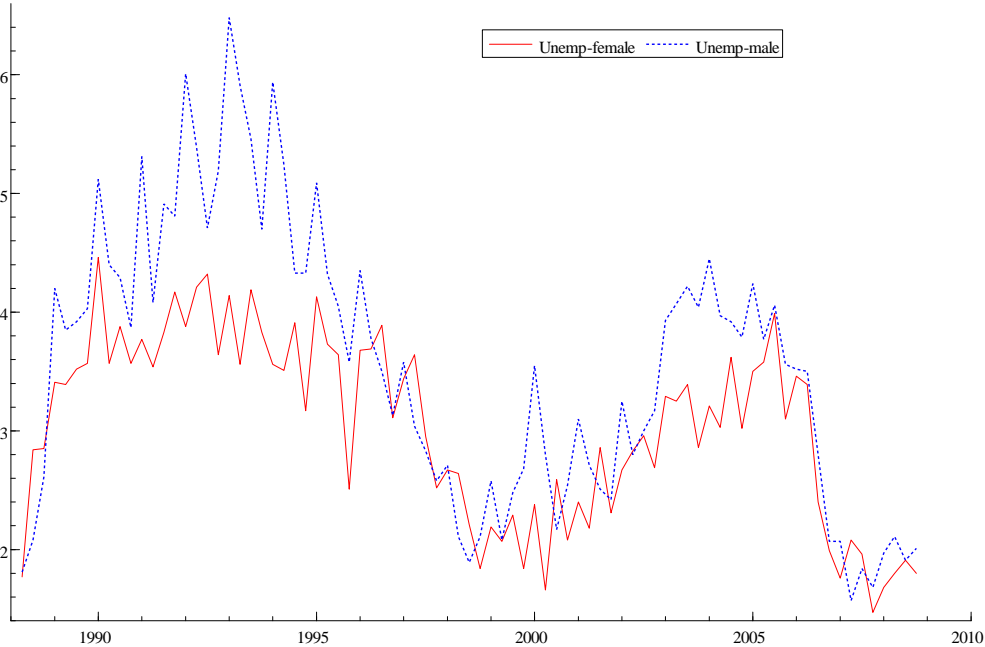


Figure 1. Macro unemployment rates by gender, in per cent

4. Automatic model selection

Logit estimation of (3) on our data set involves 91 parameters, since we have 8 variables with individual characteristics and 82 dummy variables for observation quarter (1988q2 is the reference quarter) and a constant term in the equation. In line with custom we refer to this model as the general unrestricted model (GUM). Since the number of observations is large, there is no degree-of-freedom problem involved in estimating this GUM. However, there is a concern that some of the dummies for

time period of observation may become “significant by chance” which may mislead on the role of frictions and chance on individual job probabilities.

A simple way of controlling this cost of embedding the choice variables in a GUM, is to do a statistical test of the joint hypothesis $\delta_2 = 0$. However, an insignificant test outcome of the joint hypothesis may hide that one or more observations do carry friction effects, e.g., because of a wide null hypothesis and many insignificant dummies. Conversely, if the joint test does reject the null of no friction effects, it is of interest to investigate if there are some observation dummies that are most significant, in particular since friction effects are likely to be time variant (as a result of the business cycle for example). To answer these questions, we also make use of general to specific (GETS) model specification.

GETS modeling strategies have been debated over several decades, as e.g. the different positions in Lovell (1983) and Hendry et al. (1990) show. Manual search within a GUM is often time consuming (also in terms of documentation) and is impossible to evaluate. The use of computer algorithms makes documentation costless and makes sure that the search is based on algorithms that have been tested and evaluated in Monte Carlo simulations and analytically simple models. In this paper we make use of Autometrics, Doornik and Hendry (2009), the third generation of selection algorithms, following Hoover and Perez (1999) and Hendry and Krolzig (1999, 2005). Autometrics is likelihood based, so it can accommodate non-linear discrete variable models which suit our research question. Castle and Hendry (2011) focus on non-linear transformations of the regressors in models with continuous left hand side variable.

In Autometrics, the user is required to formulate the GUM and to set the nominal *size* that determines the significance level below which a variable cannot be deleted from the model. Below we denote the target size by the symbol α . There are many ways to judge the performance of variable selection algorithms, but one requirement is that the null retention rate of irrelevant variables (“gauge”) is well controlled by the nominal size α while the retention rate of relevant variables (“potency”) is comparable to power of the one-off statistical test (based on knowledge of the exact parameter restrictions). Doornik (2009) and Castle et al. (2011) show that both can be achieved jointly by Autometrics in Monte Carlo simulations that capture realistic degrees of collinearity, departures from normality assumptions and non-stationary data.

The large sample size and the fact that the choice variables in X_1 are almost uncorrelated with dummies in X_2 (see below), favour a reliable search outcome in our case. Nevertheless estimated coefficients are biased away from zero for retained variables. Therefore a conservative strategy is advisable, setting α to for example 0.01 or 0.025 rather than to the conventional significance level of 0.05.

It is not unusual that Autometrics delivers more than one “terminal model” before choosing one “final model” based on the Schwarz Information Criterion, SIC. However, since all the terminal models are valid reductions of the GUM, an alternative choice of final model can be based on an encompassing test. We therefore form the union of terminal models and search from this GUM. Below we will report results for both the use of the SIC, which we refer to as One-stage selection, and the encompassing test, which we have dubbed as Two-stage selection. In particular, the Two-stage selection (encompassing) can aid the interpretation of the estimation result, by showing more of the selection margin than what the One-stage selection does.

5. Empirical results – Sample I

Table 1 gives an overview of estimation results using Sample I. In the GUM, the probability of being employed given that the female is in the work force is modelled as a function of the following choice variables: Education length, (potential) work experience, and its square, a dummy for living in a residential area, the number of children in three age groups and the log of real non-labour income. In addition the GUM contains a constant term and the full set of 82 calendar dummies for time periods, the reference quarter being 1988q2. This gives a model with 91 parameters, of which 8 represent the effects of changes in the individual explanatory variables. We refer to estimations based on this information set as *Model class NU* (no unemployment rate).

The results when all the variables in the GUM are forced to be included in the estimation are shown in the first column of Table 1. We do not show the estimated dummy coefficients for the GUM in Table 1 because of the large number of calendar dummies. Instead, the last part of the table includes the Chi-square statistic of the joint hypothesis that all the calendar dummies in the GUM have zero coefficients. As the test statistic shows, this hypothesis is rejected at a very low significance level. Figure 2 shows a graph of the t-values of the full set of calendar dummies in the GUM. The graph shows that for the years between 1991 and 1999 there is a majority of negative t-values, and that some of these are significant. This period was marked by the consequences of the banking crisis in Norway, the mentioned 40 percent fall in the real housing prices, and a general recession caused both by financial consolidation among Norwegian households, and in contraction of export markets. Thus our estimation results support the interpretation that many women experienced a drop in the job offer rate in this period, and that layoffs increased. The years before and immediately after the new millennium were much better in terms of labour market performance, which seems to be reflected in the sequence of positive t-values in the graph. The period until 2005 was, however, marked by low employment growth, but then employment increased by almost 250,000 persons between 2005 and the onset of the financial crisis in 2008 (this is unusually high for Norway). As mentioned above, this exceptional large increase in employment would not have been possible without immigration of workers.

In sum, the graph is consistent with the existence of chance effects on individual employment probabilities. The question we address is whether automatic model selection can be used to reduce the number of dummies to a significant set that can be interpreted in the light of what we know about the Norwegian business cycle history.

Table 1. Logit estimates of the probability of being employed for married and cohabitating women in the work force. Sample I. Model class NU

Explanatory variable	Model specification			
	GUM		One-stage selection	
	Estimate	t-value	Estimate	t-value
<i>Choice variables</i>				
Schooling	0.283	17.5	0.287	18.5
Experience	0.072	4.24	0.071	4.20
Experience ² /100	-0.047	-1.32	-0.043	-1.22
Urban dummy	0.065	0.972	0.061	0.90
#children 0–3	-0.196	-3.07	-0.198	-3.11
#children 4–6	-0.141	-2.15	-0.135	-2.07
#children 7–18	-0.078	-2.96	-0.078	-2.07
Non-labour income ^a	0.149	4.25	0.157	4.54
<i>Calendar dum.</i>				
Constant	-2.07	-3.81	-2.631	-5.62
1991q1			-0.429	-2.32
1993q3	This model has a full set of break		-0.454	-2.56
1995q1	Dummies		-0.441	-2.46
1995q2			-0.432	-2.30
1999q2			2.26	2.26
2004q2			-0.606	-2.41
Chi-sq. for full set of breaks ^c	123.422 [0.0021]			
Chi-sq. for retained set of breaks ^b			31.665 [0.000]	
No. of param.	91		15	
No. of breaks	82		6	
Log-likelihood	-5,311-14		-5,364.47	
Target size, α			Small (0.01)	

^aThe variable is log transformed.

^bSignificance probability in square brackets.

To do that, we now use Autometrics to select models that retain only a sub-set of statistically significant dummies. By using a target size of 1 percent, we expect to keep perhaps 1 dummy too many, under the null hypothesis of no significance. It is reasonable to think that identification of breaks is sample dependent, and therefore we also estimate the model on a second data set below (Section 6).

The columns dubbed One-stage selection shows the results when the choice variables are always kept as regressors (they are not subject to selection), and the final model is obtained by applying the SIC as explained in Section 4. The result is that only 6 calendar dummies are kept as significant chance variables and their estimated coefficients and t-values are shown in the two last columns of Table 1. Two of the retained dummies are from the early 1990s, two are from 1995, one is from 1999 and the last one is from 2004.

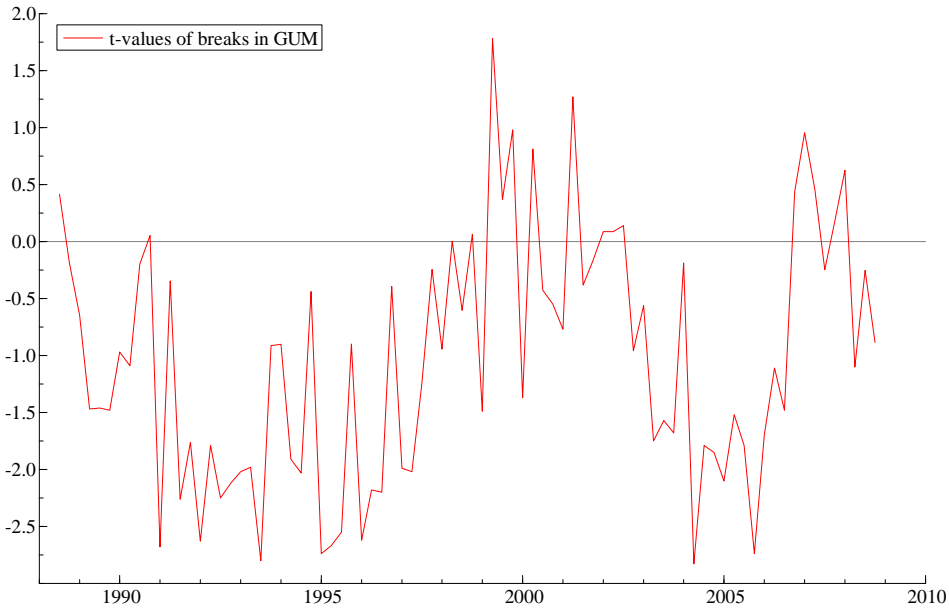


Figure 2. Estimated t-values of the break dummies in the GUM in Table 1

The dummies for 1991q1, 1993q3, and also 1995q1 and 1995q2, correspond well with the recession mentioned above. The positive coefficient for the 1999q2 dummy is associated with the period of marked fall in female unemployment between 1996 and 2000, and the selection of the 2004q2-dummy comes from the period of prolonged growth in unemployment at the start of the millennium. The test of the null hypothesis that the parameters of the six dummies are jointly zero, gives rejection at arbitrary low levels of significance, as the *Chi-squared* test shows.

To assess the effects of the identified macroeconomic shocks it is informative to measure how the different shocks influence the job probability. In Table 2 we consider the implications of the significant negative breaks for female population employment.⁸ To interpret the numbers in the table, let us pick one of the quarters, for instance 1991q1. The number 0.0150 corresponds to a 1.5

⁸ Recall that the population we are considering is married and cohabitating women aged 25-60 years.

percentage point increase in the average predicted job probability, when one compares a counterfactual situation (without the friction effect) with the actual.

Table 2. Marginal effects of different negative shocks on the mean job probability and implications for aggregate employment. Model class NU, One-stage selection reported in Table 1

Period (<i>t</i>)	Increase in mean probability in a counterfactual situation with no break ^a	Increase in number of employed women at the population level
1991q1	0.0150	6,600
1993q3	0.0144	6,800
1995q1	0.0131	6,500
1995q2	0.0121	6,100
2004q2	0.0142	7,900

^aThe mean is taken over the women in the sample in the specific quarter.

The mean is taken over the total number of women in the sample observed in this quarter. Although the increase in the predicted job probability is rather small, this does not mean that the aggregate increase in numbers of unemployed is trivial. Using information on the corresponding population of married and cohabiting females in the work force in the same quarter one may deduce that the absence of the shock yields an increase in the population employment corresponding to approximately 6,600 persons, which is a non-negligible increase in Norwegian employment.⁹ Similar type of calculations is carried out for the other quarters that are reported in Table 2.

6. Empirical results - Sample II

To investigate the role of sample variability and robustness for the selection of variables, we repeat the estimations undertaken in the previous section using the other sample mentioned above. As noted, Sample II shows no noteworthy differences in the characteristics of the persons from Sample I, but due to the sample selection procedure the number of observations in the various quarters might differ.

Figure 3 shows the t-values for the calendar dummies in the GUM for the two data sets. Although there are differences between the t-values for a given quarter, the two graphs show the same general qualitative evolution of friction over time. According to the graphs, there was (negative) friction early in the data period, and between 2003 and 2005. After 2005 there was a relatively marked improvement in labour market conditions and a lessening of frictional effects on job probabilities. The lower panel of the figure reduces the effect of sample variability by showing a centered moving average of the two sequences of t-values.

⁹This type of calculation is based on the simplifying assumption that the sample is drawn randomly from the population. More accurate calculations may be carried out taking account to the sample design used in conjunction with LFS.

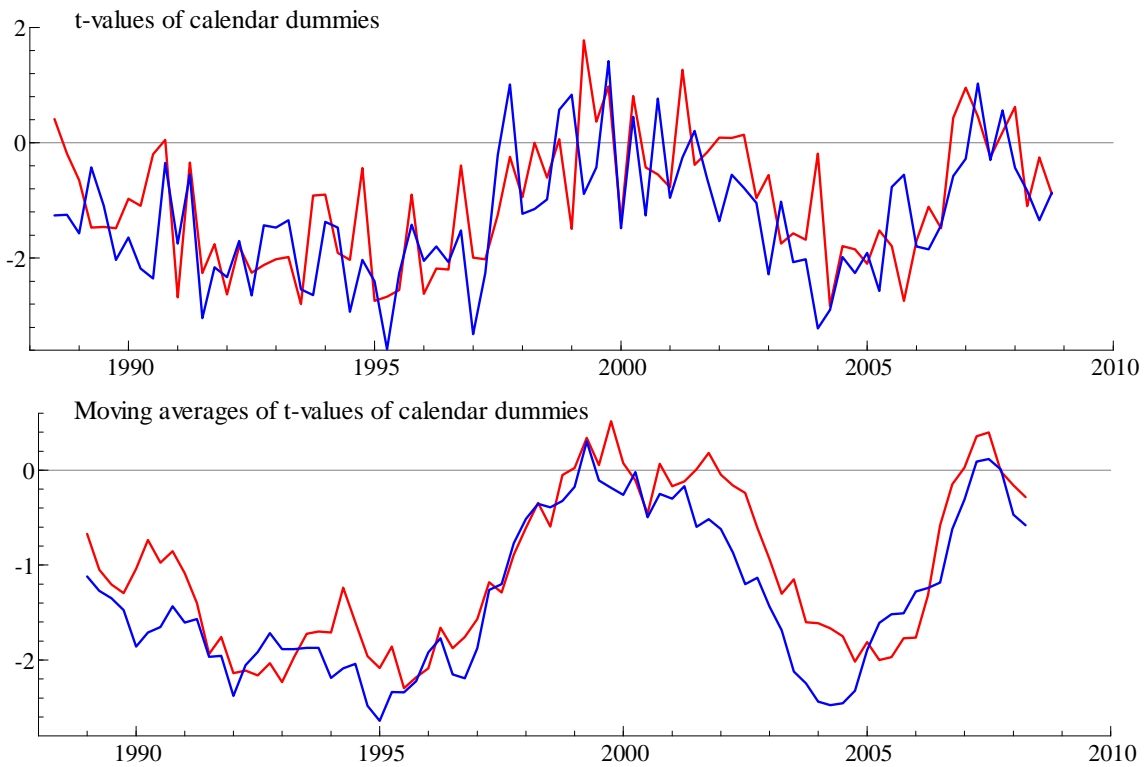


Figure 3. Red graph in upper panel shows t-values of the calendar dummies in the GUM for Sample I. Blue graph shows t-values for the GUM for Sample II. Graphs in lower panel show the centered moving averages of the two series of t-values.

Table 3 makes it possible to compare the models obtained on the two datasets, and also the results from using two different model selection algorithms. The first column with estimates and t-values is the same as *Model class NU*, One-stage selection in Table 1, i.e., for Sample I. The next two columns show results for the first sample using the Two-stage selection (encompassing) method mentioned in Section 4. The last four columns in Table 3 show the results from the same two selection procedures, but for Sample II.

The difference between the two selection methods is the following. In One-stage selection we obtain a single final specification by employing SIC after having ended up with potentially several terminal models. In Sample I there are in fact 6 terminal models, meaning that the selection margin is broad. In this case it is worth considering other decision rules than SIC. Hence as an alternative, we also use a Two-stage selection procedure where we form a union model of the six terminal models and then let Autometrics select friction dummies from this second-stage GUM, using a slightly more liberal significance level with target size, α , equal to 0.025. As expected, the encompassing method yields more retained calendar dummies in the final model specification for both data sets. For Sample I, the number of calendar dummies increases from 6 to 11, whereas it increases from 4 to 11 when Sample II is used.

Table 3. Final models of the probability of being employed for married and cohabitating women in the work force according to two different samples and two selection methods.^a Model class NU

Explanatory variable	Sample I				Sample II			
	One-stage select.		Two-stage select. ^b		One-stage select.		Two stage select. ^c	
	Estimate	t-value	Estimate	t-value	Estimate	t-value	Estimate	t-value
<i>Choice var.</i>								
Schooling	0.287	18.5	0.289	18.6	0.274	18.0	0.271	17.9
Experience	0.071	4.20	0.072	4.25	0.086	5.14	0.085	5.14
Experience ² /100	-0.043	-1.22	-0.045	-1.26	-0.083	-2.41	-0.085	-2.44
Urban dummy	0.061	0.90	0.060	0.89	0.017	0.25	0.020	0.29
#children 0-3	-0.198	-3.11	-0.195	-3.06	-0.163	-2.53	-0.168	-2.62
#children 4-6	-0.135	-2.07	-0.131	-2.02	-0.219	-3.44	-0.226	-3.54
#children 7-18	-0.078	-2.07	-0.077	-2.06	-0.086	-2.30	-0.088	-2.34
Non-labour inc. ^d	0.157	4.54	0.156	4.51	0.115	3.10	0.111	2.97
<i>Calendar dum.</i>								
Constant	-2.631	-5.62	-2.618	-5.59	-2.046	-4.19	-1.971	-4.02
1988q3			0.572	1.78				
1991q1	-0.429	-2.32	-0.458	-2.48				
1991q3							-0.435	-2.35
1992q1			-0.461	-2.34				
1993q3	-0.454	-2.56	-0.483	-2.72				
1994q3							-0.394	-2.17
1995q1	-0.441	-2.46	-0.470	-2.62				
1995q2	-0.432	-2.30	-0.462	-2.46	-0.612	-3.54	-0.598	-3.46
1995q3			-0.421	-2.24				
1996q1			-0.458	-2.33				
1997q1					-0.595	-2.85	-0.581	-2.78
1997q4							1.160	-2.30
1998q4							0.883	1.95
1999q1							1.057	2.10
1999q2	2.26	2.26	2.233	2.23				
1999q4					1.650	2.32	1.664	2.34
2000q2							0.816	1.81
2000q4							1.018	2.02
2004q1					-0.668	-2.58	-0.652	-2.52
2004q2	-0.606	-2.41	-0.636	-2.53				
2005q4			-0.636	-2.38				
No. of obs.	50,487		50,487		50,283		50,283	
No. of paramet.	15		20		13		20	
No. of breaks	6		11		4		11	
Log-likelihood	-5,364.47		-5,353.40		-5,417.333		-5,397.875	

^aThe target size, α , in conjunction with One-stage selection and the initial sequence of Two-stage selection is 0.01. The target size in conjunction with the second sequence of *Two-stage selection* is 0.025.

^bThe GUM used in the final sequence includes the following right hand side variables: All choice variables, constant term, 1988q3, 1988q4, 1990q3, 1990q4, 1991q1, 1991q2, 1992q1, 1993q3, 1994q4, 1995q1, 1995q2, 1995q3, 1996q1, 1998q2, 1998q4, 1999q2, 1999q3, 2002q1, 2002q2, 2002q3, 2004q2, 2005q4 and 2006q4. The GUM used in the initial sequence yields 16 terminal models.

^cThe GUM used in the second sequence includes the following right hand side variables: All choice variables, constant term, 1989q2, 1990q4, 1991q3, 1994q3, 1995q2, 1997q1, 1997q4, 1998q4, 1999q1, 1999q4, 2000q2, 2000q4, 2001q3 and 2004q1.

^dThe GUM used in the initial sequence yields 6 terminal models.

^eThe variable is log transformed.

The results related to the effects of the choice variables are rather similar for the two data sets. A difference is that the squared experience term enters significantly for Sample II and in addition its estimated coefficient is larger in magnitude. With respect to the One-stage selection procedure the retained calendar dummies using the different data sets come from the same periods, but they are fewer using Sample II. Specifically, the final model for Sample II does not incorporate any quarters from 1991 and 1993 as periods of significant friction. These are the main differences between the selected variables in the two samples when One-stage selection is used.

If one turns to the Two-stage selection procedure there are 11 calendar dummies for both data sets. There is one common calendar dummy, 2005Q2. Otherwise the results differ somewhat. For instance, the results for Sample I show there are calendar dummies for 1991q1 and 2004q2, whereas according to Sample II there are calendar dummies for 1991q3 and 2004q1. However, there are also examples that significant calendar dummies are found in a time interval using one of the data sets, but not the other one. For instance according to the results for Sample II there are four significant calendar dummies in the years 1997–1998, but none according to Sample I. This difference may to some extent be attributed to sample variability. Overall it seems reasonable to conclude that the automatic model selection algorithm used in Autometrics is relative robust with respect to sampling variability.

Throughout this paper we apply the Newton algorithm to estimate the models in conjunction with model selection. This is the default algorithm in Autometrics. To test whether the choice of algorithm influence model selection we redo the model selection for Sample I above using the BFGS algorithm. We consider both the case with One-stage and Two-stage model selection. In the former case we obtain six significant calendar dummies, of which five are common for both algorithms. Using the Newton algorithm a sixth calendar dummy is included for 1991q1, whereas for the BFGS algorithm a sixth calendar dummy is included for 2005q4. Using BFGS and Two-stage model selection calendar dummies for 1991q3 and 1992q3 are added to the eleven that are common for both algorithms. The estimates of the coefficients attached to the choice variables are very robust with respect to the choice of computational algorithm. Thus, choice of algorithm seems to have only a modest effect on the final specifications when performing model selection using Autometrics.¹⁰

7. Models with macro unemployment rate(s)

In this section we consider model selection after having added macro unemployment rate(s) to the information set. Our primary goal is to demonstrate that almost no calendar dummies are necessary when we include the unemployment rate(s) in the information set. We consider three different

¹⁰ The model selection results based on the BFGS algorithm is obtainable from the authors upon request.

measures of unemployment: *Model class FU* (Table 5), *Model class MU* (Table 6) and *Model class BU* (Table 7), respectively, correspond to (i) a specification with the aggregate female unemployment rate, (ii) a specification with the aggregate male unemployment rate and (iii) a specification with both the aggregate female and male unemployment rates. These measures are interacted with the two selection algorithms, cf. the One-stage and the Two-stage (encompassing) selection procedures used in the two previous sections. In both cases all the choice variables are forced to be included in the final model. An important finding is that the unemployment rate is retained in all the final model specifications, and that only the female unemployment rate is retained in *Model class BU*.

Table 4. Logit estimates of the probability of being employed for different measures of the unemployment rate.^a No automatic model selection

Explanatory variable	Sample I			Sample II		
	<i>Model class</i>			<i>Model class</i>		
	<i>FU</i>	<i>MU</i>	<i>BU</i>	<i>FU</i>	<i>MU</i>	<i>BU</i>
Schooling	0.271 (17.4)	0.274 (17.6)	0.271 (17.4)	0.257 (16.8)	0.262 (17.2)	0.257 (16.8)
Experience	0.070 (4.13)	0.070 (4.13)	0.070 (4.13)	0.084 (5.05)	0.085 (5.11)	0.084 (5.04)
Experience ² /100	-0.046 (-1.32)	-0.045 (-1.29)	-0.047 (-1.32)	-0.086 (-2.49)	-0.086 (-2.50)	-0.086 (-2.48)
Urban dummy	0.070 (1.05)	0.067 (1.01)	0.070 (1.05)	0.026 (0.38)	0.027 (0.40)	0.025 (0.38)
#children 0–3	-0.210 (-3.30)	-0.207 (-3.24)	-0.210 (-3.29)	-0.178 (-2.76)	-0.171 (-2.66)	-0.178 (-2.76)
#children 4–6	-0.152 (-2.33)	-0.151 (-2.32)	-0.153 (-2.35)	-0.238 (-3.73)	-0.235 (-3.69)	-0.238 (-3.72)
#children 7–18	-0.085 (-2.27)	-0.083 (-2.20)	-0.085 (-2.26)	-0.091 (-2.42)	-0.089 (-2.38)	-0.091 (-2.42)
Non-labour income ^b	0.141 (3.99)	0.144 (4.08)	0.140 (3.96)	0.092 (2.41)	0.097 (2.56)	0.093 (2.42)
Female unemp. rate	-0.318 (-7.35)		-0.241 (-3.28)	-0.297 (-6.99)		-0.333 (-4.54)
Male unemp. rate		-0.172 (-6.89)	-0.056 (-1.29)		-0.138 (-5.54)	0.026 (0.59)
Constant	-1.195 (-2.31)	-1.637 (-3.28)	-1.209 (-2.34)	-0.568 (-1.05)	-1.153 (-2.21)	-0.561 (-1.04)
No. of parameters	10	10	11	10	10	11
Log-likelihood	-5,354.41	-5,359.01	-5,353.58	-5,408.11	-5,418.35	-5,407.93

^a t-values in parentheses.

^bThe variable is log transformed.

Table 4 contains the estimation results when all the calendar dummies have been omitted *a priori*. These specifications involve no model selection, and we only include choice variables and a measure of the unemployment rate. Within both samples the parameter estimates are almost identical across model specifications. The parameter estimate associated with the unemployment rate is larger when we use the unemployment rate of females than the unemployment rate of males, but from Figure 1 we notice that for most periods the unemployment rate among men is higher than the one for females.

Table 5. Logit estimates of the probability of being employed using the female unemployment rate (*Model class FU*) as a regressor^a

Explanatory variable	Sample I		Sample II	
	One-stage select. ^b	Two-stage select. ^c	One-stage select. ^b	Two-stage select. ^d
Schooling	0.271 (17.4)	0.273 (17.5)	0.257 (16.8)	0.259 (16.9)
Experience	0.070 (4.14)	0.069 (4.11)	0.084 (5.05)	0.085 (5.08)
Experience ² /100	-0.047 (-1.32)	-0.045 (-1.29)	-0.086 (-2.49)	-0.087 (-2.50)
Urban dummy	0.071 (1.06)	0.070 (1.04)	0.026 (0.38)	0.020 (0.30)
#children 0–3	-0.211 (-3.32)	-0.213 (-3.34)	-0.178 (-2.76)	-0.175 (-2.71)
#children 4–6	-0.150 (-2.30)	-0.149 (-2.28)	-0.238 (-3.73)	-0.236 (-3.69)
#children 7–18	-0.085 (-2.26)	-0.084 (-2.23)	-0.091 (-2.42)	-0.092 (-2.44)
Non-labour income ^e	0.142 (4.00)	0.143 (4.05)	0.092 (2.41)	0.096 (2.51)
Female unempl. rate	-0.304 (-7.00)	-0.311 (-7.11)	-0.297 (-6.99)	-0.265 (-6.08)
Constant	-1.255 (-2.43)	-1.258 (-2.44)	-0.568 (-1.05)	-1.258 (-2.44)
1995q2				-0.489 (-2.82)
1997q1				-0.547 (-2.62)
1997q4				0.950 (1.88)
1999q2	1.938 (1.93)	1.915 (1.91)		
1999q4				1.277 (1.79)
2004q1				-0.668 (-2.58)
2004q2		-0.649 (-2.58)		
2005q4		-0.623 (-2.33)		
No. of obs.	50,487	50,487	50,283	50,283
No. of parameters	11	13	10	15
No. of breaks	1	3	0	5
Log-likelihood	-5,350.53	-5,345.53	-5,408.11	-5,394.11

^a t-values in parentheses.

^b All choice variables and constant term forced to be included in the final model. Other exogenous variables in GUM: 1988q4, 1989q1, ..., 2008q4, female unemployment rate.

^c All choice variables and constant term forced to be included in the final model. Other exogenous variables in GUM: 1991q1, 1992q1, 1993q3, 1995q1, 1995q2, 1995q3, 1996q1, 1999q2, 1999q3, 2004q2, 2005q4 and female unemployment rate.

^d All choice variables and constant term forced to be included in the final model. Other exogenous variables in final sequence GUM: 1991q3, 1995q2, 1997q1, 1997q4, 1999q4, 2004q1 and female unemployment rate.

^e The variable is log transformed.

In Table 5 we consider models with the female unemployment rate included in the information set (*Model class FU*). Using the One-stage version of the automatic selection algorithm, we end up with one calendar dummy for Sample I, and no calendar dummies when Sample II is used. For the corresponding estimations without the unemployment rate in the information set (Table 3) we ended up with 6 dummies (Sample I) and 4 dummies (Sample II). For Sample I the single calendar dummy in Table 5 (1999q2), is also among the 6 retained calendar dummies in the corresponding specification in Table 3.

Using Two-stage selection — still with the female unemployment rate included in the information set — the final model specifications contain a few more calendar dummies. From the results in Table 5 we see that for Sample I there are three calendar dummies, while for Sample II five calendar dummies are included. The female unemployment rate enters with the correct sign in all specifications and is strongly significant.¹¹

It might be argued that there is a potential endogeneity problem from using the aggregate female unemployment rate as a right-hand-side variable because of the partial overlap in the sample used in the estimation of this rate and our data (both samples are based on data from the LFS). To consider this issue we have also considered models where we use the male unemployment rate (*Model class MU*) instead of the one for females. The estimated effect of the male unemployment rate is negative and significant in Table 6, although the parameter estimates are not as large as the corresponding estimates of female unemployment reported in Table 5. Using the male unemployment rate and the One-stage selection procedure we end up with 1 calendar dummy for both samples. Recall that the corresponding estimation results in Table 3, in which the unemployment rate was omitted, included several calendar dummies. For the Two-stage (encompassing) version, and with the male unemployment rate in the information set, the number of calendar dummies is 5 with Sample I and 2 with Sample II (Table 6). The estimated slope parameters attached to the choice variables are rather equal regardless of whether we use the female (Table 5) or the male (Table 6) macro unemployment rate.

When we, as shown in Table 7, include both unemployment rates in the GUM, only the female unemployment rate is retained. This comes as no surprise since the two unemployment rates series are highly correlated, as is evident from Figure 1.¹² Using the One-stage selection algorithm, none of the calendar dummies are retained in the final specification. This is the case for both samples.

¹¹ Note that in conjunction with Tables 5 and 6, we have omitted the calendar dummies for 1988q2 and 1988q3 in order to achieve identification which is necessary for the selection algorithm to be operative. Of the same reason we have in Table 7 omitted the calendar dummies for 1988q2, 1988q3 and 1988q4.

¹² The empirical correlation coefficient is 0.86.

Table 6. Logit estimates of the probability of being employed using the male unemployment rate (*Model class MU*) as a regressor^a

Explanatory variable	Sample I		Sample II	
	One-stage select. ^b	Two-stage select. ^c	One-stage select. ^b	Two-stage select. ^d
Schooling	0.274 (17.6)	0.276 (17.7)	0.262 (17.2)	0.262 (17.2)
Experience	0.070 (4.14)	0.070 (4.14)	0.086 (5.13)	0.085 (5.12)
Experience ² /100	-0.045 (-1.30)	-0.045 (-1.28)	-0.087 (-2.52)	-0.087 (-2.51)
Urban dummy	0.068 (1.01)	0.068 (1.01)	0.024 (0.36)	0.022 (0.33)
#children 0–3	-0.208 (-3.26)	-0.209 (-3.28)	-0.168 (-2.61)	-0.167 (-2.60)
#children 4–6	-0.150 (-2.29)	-0.148 (-2.27)	-0.235 (-3.69)	-0.232 (-3.64)
#children 7–18	-0.082 (-2.19)	-0.082 (-2.17)	-0.090 (-2.40)	-0.091 (-2.42)
Non-labour inc. ^e	0.144 (4.08)	0.145 (4.11)	0.097 (2.56)	0.097 (2.57)
Male unempl. rate	-0.164 (-6.55)	-0.162 (-6.38)	-0.141 (-5.64)	-0.138 (-5.64)
Constant	-1.680 (-3.37)	-1.709 (-3.43)	-1.136 (-2.18)	-1.133 (-2.17)
1995q2				-0.559 (-3.23)
1995q3		-0.350 (-1.87)		
1997q1			-0.630 (-3.02)	-0.643 (-3.08)
1999q2	2.003 (2.00)	1.992 (1.98)		
2001q2		1.062 (1.82)		
2004q2		-0.566 (-2.25)		
2005q4		-0.630 (-2.36)		
No. of obs.	50,487	50,487	50,283	50,283
No. of parameters	11	15	11	12
No. of breaks	1	5	1	2
Log-likelihood	-5,354.74	-5,346.27	-5,414.51	-5,410.01

^a t-values in parentheses.

^b All choice variables and constant term forced to be included in the final model. Other exogenous variables in GUM: 1988q4, 1989q1, ..., 2008q4, male unemployment rate.

^c All choice variables and constant term forced to be included in the final model. Other exogenous variables in GUM: 1991q1, 1991q3, 1992q1, 1992q3, 1993q3, 1995q1, 1995q2, 1995q3, 1996q1, 1999q2, 1999q3, 1999q4, 2000q2, 2001q2, 2004q2, 2005q4, 2006q4 and male unemployment rate.

^d All choice variables and constant term forced to be included in the final model. Other exogenous variables in second sequence GUM: all calendar dummies except 1998q4 and 2000q2, male unemployment rate.

^e The variable is log transformed.

Table 7. Logit estimates of the probability of being employed using the female and male unemployment rates (*Model class BU*) as regressors^a

Explanatory variable	Sample I		Sample II	
	One-stage select. ^b	Two-stage select. ^c	One-stage select. ^b	Two-stage select. ^d
Schooling	0.271 (17.4)	0.272 (17.5)	0.257 (16.8)	0.260 (16.9)
Experience	0.070 (4.13)	0.069 (4.11)	0.084 (5.05)	0.084 (5.05)
Experience ² /100	-0.046 (-1.32)	-0.046 (-1.30)	-0.086 (-2.49)	-0.086 (-2.47)
Urban dummy	0.070 (1.05)	0.069 (1.03)	0.026 (0.38)	0.020 (0.30)
#children 0–3	-0.210 (-3.30)	-0.213 (-3.34)	-0.178 (-2.76)	-0.177 (-2.76)
#children 4–6	-0.152 (-2.33)	-0.150 (-2.30)	-0.238 (-3.73)	-0.235 (-3.68)
#children 7–18	-0.085 (-2.27)	-0.085 (-2.25)	-0.091 (-2.42)	-0.091 (-2.43)
Non-labour income ^e	0.141 (3.99)	0.142 (4.02)	0.092 (2.41)	0.095 (2.51)
Female unempl. rate	-0.318 (-7.35)	-0.308 (-7.07)	-0.297 (-6.99)	-0.292 (-6.73)
Constant	-1.195 (-2.31)	-1.245 (-2.41)	-0.568 (-1.05)	-0.626 (-1.16)
1995q2				-0.496 (-2.86)
1997q1				-0.561 (-2.69)
1999q2		1.925 (1.92)		
2004q1				-0.689 (-2.66)
2004q2		-0.641 (-2.55)		-0.638 (-2.39)
No. of obs.	50,487	50,487	50,283	50,283
No. of parameters	10	12	10	14
No. of breaks	0	2	0	4
Log-likelihood	-5,354.41	-5,347.81	-5,408.11	-5,396.58

^a t-values in parentheses.

^b All choice variables and constant term forced to be included in the final model. Other exogenous variables in GUM: 1988q4, 1989q1, ..., 2008q4, female unemployment rate, male unemployment rate.

^c All choice variables and constant term forced to be included in the final model. Other exogenous variables in second sequence GUM: 1991q1, 1992q1, 1993q3, 1995q1, 1995q2, 1995q3, 1996q1, 1999q2, 2004q2, female unemployment rate, male unemployment rate.

^d All choice variables and constant term forced to be included in the final model. Other exogenous variables in GUM: 1991q3, 1994q3, 1995q2, 1997q1, 1997q2, 1999q4, 2004q1, 2004q2, 2004q4, 2005q2, female unemployment rate, male unemployment rate.

^e The variable is log transformed.

Using the Two-stage selection algorithm, we retain 2 calendar dummies in conjunction with Sample I and 4 with Sample II. One of the calendar dummies is common for both samples, namely the dummy for 2004q2.

The magnitudes of the estimated parameters attached to the choice variables are similar to those reported in Tables 5 and 6. The parameter estimate of the female unemployment rate is somewhat larger for Sample I than for Sample II.

8. Models with time-heterogeneity in slope coefficients

So far we have assumed that the slope coefficients attached to the choice variables are time invariant. In this section we consider a more flexible GUM where the choice variables are allowed to influence the job probability differently in the first and second half of the sample. We generate eight new variables by interacting the choice variables with a dummy, DB, which is 1 until 1997q4 and 0 thereafter. The eight new variables are added to the (initial) GUM used in conjunction with the models presented in the previous sections. Using the augmented GUMs we redo the model selection using both the One-stage and the Two-stage model selection procedures. In Table 8 we report the results for the NU and BU class of models using Sample I. Again only the eight choice variables and the constant term are forced to be retained in the final model specification. To facilitate comparison with the previous reported results in which homogeneity of response to choice variables over time is imposed, we also include estimates from these models in Table 8.¹³

With respect to *Model class BU* we do not end up with any interaction variables in the final model specification using the extended GUM. This is the case for both model selection procedures. Only one new calendar dummy is found in both cases. One-stage model selection finds 1999q2 as a new dummy, and Two-stage model selection finds a dummy for 2004q2. If we turn to the NU model class, interaction effects related to the length of education and the log of real non-labour income are included in the final model specification using both model selection procedures. The number of calendar dummies is also influenced by the augmented GUM. In the One-stage selection case we obtain three less calendar dummies, and the timing of one of the calendar dummies is also influenced. Using two stage model selection three calendar dummies are added, such that the number of calendar dummies increases from 11 to 14. Altogether we find the results to be reasonable robust. Many of the calendar dummies are present irrespective of using the narrower or the wider GUM. Besides the estimates of the slope parameters attached to the choice variables for which no interaction effects are involved, are very equal for both GUMs.

¹³ Results for the FU and BU model classes using Sample I and results for all four model classes using Sample II are available upon request.

Table 8. Final models of the probability of being employed for married and cohabitating women in the work force according to Sample I and two different GUMs.³ Model classes *NU* and *BU*

Explanatory variable	<i>NU</i>				<i>BU</i>			
	One-stage model selection		Two-stage model selection		One-stage model selection		Two-stage model selection	
	Without inter. var ^b	With inter. var ^c	Without inter. var ^d	With inter. var ^e	Without inter. var ^f	With inter. var ^g	Without inter. var ^h	With inter. var ⁱ
<i>Choice variables</i>								
Schooling	0.287 (18.5)	0.231 (10.1)	0.289 (18.6)	0.234 (10.2)	0.271 (17.4)	0.271 (17.4)	0.272 (17.5)	0.273 (17.5)
Schooling×DB		0.074 (2.66)		0.077 (2.76)				
Experience	0.071 (4.20)	0.070 (4.18)	0.072 (4.25)	0.073 (4.31)	0.070 (4.13)	0.070 (4.14)	0.069 (4.11)	0.069 (4.11)
Experience ² /100	-0.043 (-1.22)	-0.046 (-1.31)	-0.045 (-1.26)	-0.049 (-1.39)	-0.046 (-1.32)	-0.047 (-1.32)	-0.046 (-1.30)	-0.045 (-1.29)
Urban dummy	0.061 (0.90)	0.064 (0.96)	0.060 (0.89)	0.062 (0.920)	0.070 (1.05)	0.071 (1.06)	0.069 (1.03)	0.070 (1.04)
#children 0-3	-0.198 (-3.11)	-0.211 (-3.31)	-0.195 (-3.06)	-0.204 (-3.19)	-0.210 (-3.30)	-0.211 (-3.32)	-0.213 (-3.34)	-0.213 (-3.34)
#children 4-6	-0.135 (-2.07)	-0.144 (-2.21)	-0.131 (-2.02)	-0.139 (-2.13)	-0.152 (-2.33)	-0.150 (-2.30)	-0.150 (-2.30)	-0.149 (-2.28)
#children 7-18	-0.078 (-2.07)	-0.083 (-2.22)	-0.077 (-2.06)	-0.083 (-2.21)	-0.085 (-2.27)	-0.085 (-2.26)	-0.085 (-2.25)	-0.084 (-2.23)
Non-labour inc. ^j	0.157 (4.54)	0.213 (5.34)	0.156 (4.51)	0.209 (5.26)	0.141 (3.99)	0.142 (4.00)	0.142 (4.02)	0.143 (4.05)
(Non-lab. inc.)×DB ⁱ		-0.091 (-3.37)		-0.086 (-3.16)				
<i>Chance variables</i>								
Female unempl. rate					-0.318 (-7.35)	-0.304 (-7.00)	-0.308 (-7.07)	-0.311 (-7.11)
Constant	-2.631 (-5.62)	-2.491 (-5.16)	-2.618 (-5.59)	-2.532 (-5.25)	-1.195 (-2.31)	-1.255 (-2.43)	-1.245 (-2.41)	-1.258 (-2.44)
1988q3		0.729 (2.26)	0.572 (1.78)	0.654 (2.03)				
1990q4				0.459 (1.67)				
1991q1	-0.429 (-2.32)		-0.458 (-2.48)	-0.383 (-2.05)				
1992q1			-0.461 (-2.34)	-0.385 (-1.93)				
1993q3	-0.454 (-2.56)		-0.483 (-2.72)	-0.414 (-2.31)				
1995q1	-0.441 (-2.46)		-0.470 (-2.62)	-0.402 (-2.22)				

Table 8. (Continued)

Explanatory Variable	<i>NU</i>				<i>BU</i>			
	One-stage model select.		Two-stage model select.		One-stage model select.		Two-stage model select.	
	Without inter. var ^b	With inter. var ^c	Without inter. var ^d	With inter. var ^e	Without inter. var ^f	With inter. var ^g	Without inter. var ^h	With inter. var ⁱ
1995q2	-0.432 (-2.30)		-0.462 (-2.46)	-0.394 (-2.08)				
1995q3			-0.421 (-2.24)	-0.353 (-1.86)				
1996q1			-0.458 (-2.33)	-0.393 (-1.98)				
1999q2	2.26 (2.26)	2.132 (2.13)	2.233 (2.23)	2.145 (2.14)		1.938 (1.93)	1.925 (1.92)	1.915 (1.91)
1999q4				0.867 (1.71)				
2001q2				1.117 (1.92)				
2004q2	-0.606 (-2.41)	-0.708 (-2.78)	-0.636 (-2.53)	-0.696 (-2.72)			-0.641 (-2.55)	-0.649 (-2.58)
2005q4			-0.636 (-2.38)	-0.698 (-2.58)				-0.623 (-2.33)
No. of obs.					50,487			
No. of param.	15	14	20	25	10	11	12	13
No. of int. breaks	6	3	11	14	0	1	2	3
Log-likelihood	-5,364.47	-5,361.04	-5,353.40	-5,340.16	-5,354.41	-5,350.53	-5,347.81	-5,345.53

^aThe target size, α , in conjunction with One-stage selection and the initial sequence of Two-stage selection is 0.01. The target size in conjunction with the second sequence of Two-stage selection is 0.025.

^bThe GUM consists of the choice variables, a constant term and calendar dummies for each of the periods 1988q3 to 2008q4.

^cThe GUM consists of the choice variables, choice variables interacted with a dummy for the first part of the sample, a constant term and calendar dummies for each of the periods 1988q3 to 2008q4.

^dFor the GUM used in the initial sequence cf. ^b. The GUM used in the final sequence includes the following right hand side variables: Choice variables, constant term, 1988q3, 1988q4, 1990q3, 1990q4, 1991q1, 1991q2, 1992q1, 1993q3, 1994q4, 1995q1, 1995q2, 1995q3, 1996q1, 1998q2, 1998q4, 1999q2, 1999q3, 2002q1, 2002q2, 2002q3, 2004q2, 2005q4 and 2006q4. The GUM used in the initial sequence yields 16 terminal models.

^eThe second stage GUM consists of the choice variables, Schooling×DB, Non-labour inc.×DB, a constant, 1988q3, 1990q3, 1990q4, 1991q1, 1991q3, 1992q1, 1992q4, 1993q3, 1995q1, 1995q2, 1995q3, 1996q1, 1996q2, 1999q3, 1999q2, 1999q4, 2000q2, 2001q2, 2004q2, 2005q1, 2005q4, 2008q1.

^fThe GUM consists of the choice variables, the female unemployment rate, the male unemployment rate and calendar dummies for each of the periods 1989q1 to 2008q4.

^gThe GUM consists of the choice variables, choice variables interacted with a dummy for the first part of the sample, the female unemployment rate, the male unemployment rate, a constant term and calendar dummies for each of the periods 1989q1 to 2008q4.

^hFor the GUM used in the initial sequence cf. ^b The GUM in the second stage consists of the choice variables, a constant term, female unemployment rate, male employment rate, 1991q1, 1992q1, 1993q3, 1995q1, 1995q2, 1995q3, 1996q1, 1999q2, 2004q2.

ⁱThe second stage GUM consists of the choice variables, a constant, female unemployment rate, male unemployment rate, #children 7-18×DB, 1991q1, 1991q3, 1992q1, 1992q3, 1993q3, 1995q1, 1995q2, 1995q3, 1996q1, 1999q2, 1999q3, 1999q4, 2000q2, 2001q2, 2004q2, 2005q4, 2007q1, 2008q1.

^jThe income variable is log-transformed.

9. The relative importance of chance and choice variables at the micro level

One might hypothesize that the choice variables have only limited explanatory power when they are included in a model that include the business cycle effects, i.e., the chance variables.¹⁴ To shed light on this question we consider the hypothesis that the effects of the choice variables are zero and confront it with the alternative that the effects of the choice variables are different from zero. We carry out such a test for all the four model classes, and consider both the models obtained using the One-stage selection and models based on the Two-stage selection methods. In Table B1 in Appendix B we report the log-likelihood value and the value of the AIC under the null and under the alternative. As seen from the table, omitting the choice variables yields a significant drop in the log-likelihood value and a substantial increase in AIC. Using Chi-squared distributed LR-tests with 8 degrees of freedom, the null hypothesis is clearly rejected in all cases, i.e., when one combines the four model classes with the two selection algorithms. Thus, there is little doubt that the choice variables play a crucial role as explanatory variables for the probabilities of being employed or unemployed at the micro level.

10. The relative importance of chance and choice variables at the macro level

It is also relevant to consider the importance of choice and chance variables from a macro perspective. To do so, we have compared how the different models are able to explain the unemployment rate. In Appendix B we explain how this comparison has been carried out. Given a specific combination of model class and selection method we estimate three models. The first model (Model 1), which is a reference model, contains only a constant term. The second model (Model 2) takes as the point of departure the model specification obtained by model selection, but all the eight choice variables are omitted and the model is reestimated. The third model (Model 3) is the model obtained by model selection, cf. Table 3 and Tables 4-6. In each of the 83 time periods we predict the number of unemployed workers relative to the working force in the sample and measure the deviation relative to the observed (within sample) unemployment rate. We obtain an overall measure of deviation by calculating the square root of the mean of the squared deviations over all periods, cf. equation (B2). The results are reported in Table B2. In all cases there is a reduction in the deviation measure when one compares Model 2 to Model 1. With respect to *Model class NU*, there is a further reduction in the deviation measure when one goes from Model 2 to Model 3. Within the other three classes the difference between Model 2 and Model 3 is smaller. For *Model class FU* and *-BU*, in which the female

¹⁴ Recall that the choice variables are (i) education, (ii) work experience, (iii) work experience squared, (iv) a dummy for living in a residential area, (v)-(vii) the number of children in three age groups and (viii) the log of real non-labour income. Chance variables are period-specific calendar dummies and macro unemployment rates.

macro unemployment rate is used as a regressor in both Model 2 and Model 3, one does not get a better explanation of the (within sample) unemployment rate by adding the choice variables. For the model class MU, in which the macro male unemployment rate is used as a regressor in both Model 2 and Model 3, there is a small fall in the deviation measure when one goes from model 2 to 3. On the basis of the analysis in this section and the previous, we conclude that the choice variables are indeed important at the micro level, but they are less so if the focus is on the macro level.

11. Conclusions

In this paper we have estimated models, using Norwegian time series of cross-sections data over a twenty year period, for individual job probabilities that include both choice and chance factors. The choice factors were represented by eight choice variables motivated by microeconomic theory and previous empirical evidence, while the chance factors were represented by 82 calendar period dummies, as well as by macro unemployment rates. We used automatic model selection to estimate parsimonious models which forced all the choice variables to be retained but kept only significant chance variables, which we suggest can be interpreted as picking up chance effects, or friction elements, impinging significantly on individual employment probabilities. We applied this modelling framework to two different samples, and as may be expected, the results are subject to some sampling variability. The results differ somewhat between the two samples. However, in terms of sequences of “good and bad times” the results are the same. In both samples the effects of choice variables on individual employment probabilities are moderate, which confirms the insight that most individuals are able to hold on to a job through a macroeconomic downturn. Nevertheless, the aggregate number of people who become unemployed in those periods may be non-trivial, as our calculations suggest. Thus, we conclude that both choice and chance factors have explanatory power for job probability at the microeconomic level.

Using our estimated models we can predict the within sample share of employed women in each quarter in the time period 1988q2 to 2008q4 and compare it to the corresponding time series of observed shares. We have investigated whether adding choice variables improves the models’ abilities to predict the within sample shares. For the models that exclude macro unemployment rates from the information set, we found some improvement in fit from adding the choice variables. However, for the models that included an aggregated unemployment rate from the outset, there was no gain in terms of fit from inclusion of the choice variables.

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Appendix A. Summary statistics for Sample I

Table A1. The number of women in the workforce each quarter and the number belonging to the two labour market states

Quarter	No. of women	No. of employed women	No. of unemployed women	Unemployment rate
1988q2	793	778	15	1.9
1988q3	623	613	10	1.6
1988q4	593	581	12	2.0
1989q1	662	646	16	2.4
1989q2	644	623	21	3.3
1989q3	694	672	22	3.2
1989q4	705	683	22	3.1
1990q1	698	681	17	2.4
1990q2	740	721	19	2.6
1990q3	752	738	14	1.9
1990q4	748	734	14	1.9
1991q1	792	760	32	4.0
1991q2	721	707	14	1.9
1991q3	785	756	29	3.7
1991q4	767	743	24	3.1
1992q1	725	697	28	3.9
1992q2	768	744	24	3.1
1992q3	756	730	26	3.4
1992q4	736	711	25	3.4
1993q1	851	823	28	3.3
1993q2	818	791	27	3.3
1993q3	852	817	35	4.1
1993q4	846	825	21	2.5
1994q1	858	837	21	2.4
1994q2	826	800	26	3.1
1994q3	824	796	28	3.4
1994q4	894	876	18	2.0
1995q1	891	857	34	3.8
1995q2	854	823	31	3.6
1995q3	868	837	31	3.6
1995q4	874	855	19	2.2
1996q1	788	760	28	3.6
1996q2	761	737	24	3.2
1996q3	715	691	24	3.4
1996q4	679	666	13	1.9
1997q1	620	601	19	3.1
1997q2	534	517	17	3.2
1997q3	497	484	13	2.6
1997q4	514	505	9	1.8
1998q1	476	465	11	2.3
1998q2	463	456	7	1.5
1998q3	452	443	9	2.0
1998q4	520	512	8	1.5
1999q1	469	457	12	2.6
1999q2	444	443	1	0.2
1999q3	483	477	6	1.2

Table A1. Continued

Quarter	No. of women	No. of employed women	No. of unemployed women	Unemployment rate
1999q4	470	466	4	0.9
2000q1	468	457	11	2.4
2000q2	466	462	4	0.9
2000q3	465	457	8	1.7
2000q4	503	494	9	1.8
2001q1	490	481	9	1.8
2001q2	469	466	3	0.6
2001q3	510	502	8	1.6
2001q4	491	484	7	1.4
2002q1	500	494	6	1.2
2002q2	470	464	6	1.3
2002q3	505	499	6	1.2
2002q4	496	486	10	2.0
2003q1	435	428	7	1.6
2003q2	452	441	11	2.4
2003q3	437	427	10	2.3
2003q4	479	467	12	2.5
2004q1	457	451	6	1.3
2004q2	517	500	17	3.3
2004q3	456	445	11	2.4
2004q4	458	447	11	2.4
2005q1	459	447	12	2.6
2005q2	459	449	10	2.2
2005q3	478	467	11	2.3
2005q4	463	448	15	3.2
2006q1	452	442	10	2.2
2006q2	436	428	8	1.8
2006q3	441	432	9	2.0
2006q4	442	438	4	0.9
2007q1	305	304	1	0.3
2007q2	309	307	2	0.6
2007q3	377	373	4	1.1
2007q4	374	371	3	0.8
2008q1	545	542	3	0.6
2008q2	598	590	8	1.3
2008q3	839	831	8	1.0
2008q4	1,143	1,129	14	1.2
Total	50,487	49,285	1,202	2.4

Table A2. Summary statistics of explanatory variables

Year	Statistic	Real non-labour income ^a	Length of schooling	No. of children aged 0–3 years	No. of children aged 4–6 years	No. of children aged 7–18 years	Dummy for densely populated area
1988	Mean	183,461.21	11.12	0.19	0.18	0.77	0.77
	Std. dev.	77,255.38	2.52	0.45	0.41	0.90	0.42
	Min	182.38	6	0	0	0	0
	Max	494,463.72	20	3	2	4	1
	# obs.	2,009	2,009	2,009	2,009	2,009	2,009
1989	Mean	180,285.02	11.21	0.22	0.18	0.76	0.77
	Std. dev.	75,639.33	2.51	0.48	0.41	0.91	0.42
	Min	432.87	6	0	0	0	0
	Max	516,409.00	20	3	2	5	1
	# obs.	2,705	2,705	2,705	2,705	2,705	2,705
1990	Mean	184,393.46	11.45	0.20	0.18	0.80	0.77
	Std. dev.	76,902.08	2.70	0.46	0.42	0.91	0.42
	Min	250.22	6	0	0	0	0
	Max	556,812.00	20	3	3	5	1
	# obs.	2,938	2,938	2,938	2,938	2,938	2,938
1991	Mean	185,801.53	11.49	0.23	0.18	0.77	0.76
	Std. dev.	84,711.61	2.61	0.49	0.41	0.92	0.43
	Min	322.37	6	0	0	0	0
	Max	586,645.44	20	3	3	5	1
	# obs.	3,065	3,065	3,065	3,065	3,065	3,065
1992	Mean	191,292.31	11.53	0.21	0.18	0.81	0.76
	Std. dev.	88,864.42	2.61	0.47	0.42	0.93	0.43
	Min	156.89	6	0	0	0	0
	Max	585,173.88	20	3	2	5	1
	# obs.	2,985	2,985	2,985	2,985	2,985	2,985
1993	Mean	187,917.42	11.68	0.28	0.18	0.78	0.76
	Std. dev.	88,179.46	2.58	0.53	0.41	0.93	0.43
	Min	77.10	6	0	0	0	0
	Max	613,992.94	20	3	3	4	1
	# obs.	3,367	3,367	3,367	3,367	3,367	3,367
1994	Mean	189,942.49	11.68	0.27	0.21	0.74	0.78
	Std. dev.	86,939.76	2.58	0.53	0.45	0.91	0.42
	Min	76.31	6	0	0	0	0
	Max	621,120.69	20	3	3	5	1
	# obs.	3,402	3,402	3,402	3,402	3,402	3,402
1995	Mean	197,970.04	12.02	0.27	0.21	0.75	0.77
	Std. dev.	91,960.38	2.71	0.53	0.45	0.91	0.42
	Min	148.36	6	0	0	0	0
	Max	669,919.88	20	3	2	5	1
	# obs.	3,487	3,487	3,487	3,487	3,487	3,487
1996	Mean	201,701.99	12.09	0.27	0.21	0.76	0.76
	Std. dev.	94,491.86	2.74	0.52	0.44	0.92	0.43
	Min	147.21	6	0	0	0	0
	Max	700,311.56	20	3	2	4	1
	# obs.	2,943	2,943	2,943	2,943	2,943	2,943
1997	Mean	205,355.30	12.11	0.28	0.23	0.78	0.74
	Std. dev.	100,804.37	2.64	0.54	0.47	0.96	0.44
	Min	355.72	6	0	0	0	0
	Max	724,097.88	20	3	3	5	1
	# obs.	2,165	2,165	2,165	2,165	2,165	2,165

Table A2. (Continued)

Year	Statistic	Real non-labour income ^a	Length of schooling	No. of children aged 0–3 years	No. of children aged 4–6 years	No. of children aged 7–18 years	Dummy for densely populated area
1998	Mean	212,958.14	12.10	0.28	0.22	0.78	0.76
	Std. dev.	98,141.60	2.65	0.53	0.45	0.96	0.43
	Min	1,118.65	6	0	0	0	0
	Max	768,439.69	20.00	3	2	6	1
	# obs.	1,911	1,911	1,911	1,911	1,911	1,911
1999	Mean	217,723.04	12.38	0.28	0.21	0.75	0.75
	Std. dev.	105,422.57	2.73	0.53	0.44	0.95	0.43
	Min	615.90	6	0	0	0	0
	Max	817,057.06	20	3	3	8	1
	# obs.	1,866	1,866	1,866	1,866	1,866	1,866
2000	Mean	221,043.72	12.31	0.25	0.21	0.78	0.76
	Std. dev.	107,755.84	2.71	0.50	0.45	0.97	0.43
	Min	797.76	6	0	0	0	0
	Max	853,378.13	20	3	2	5	1
	# obs.	1,902	1,902	1,902	1,902	1,902	1,902
2001	Mean	229,121.26	12.55	0.28	0.23	0.77	0.75
	Std. dev.	111,758.60	2.72	0.53	0.47	0.96	0.43
	Min	776.41	6	0	0	0	0
	Max	883,351.38	20	3	3	7	1
	# obs.	1,960	1,960	1,960	1,960	1,960	1,960
2002	Mean	234,870.94	12.61	0.26	0.21	0.78	0.77
	Std. dev.	115,676.31	2.72	0.51	0.44	0.97	0.42
	Min	640.23	6	0	0	0	0
	Max	857,033.50	20	3	3	4	1
	# obs.	1,971	1,971	1,971	1,971	1,971	1,971
2003	Mean	241,066.05	12.73	0.26	0.20	0.80	0.78
	Std. dev.	120,388.44	2.75	0.53	0.43	0.99	0.42
	Min	612.42	6	0	0	0	0
	Max	920,717.44	20	3	2	6	1
	# obs.	1,803	1,803	1,803	1,803	1,803	1,803
2004	Mean	249,191.90	12.84	0.19	0.19	0.81	0.76
	Std. dev.	130,986.18	2.75	0.44	0.43	0.96	0.43
	Min	130.94	6	0	0	0	0
	Max	1,008,552.13	20	2	2	4	1
	# obs.	1,888	1,888	1,888	1,888	1,888	1,888
2005	Mean	255,669.29	12.91	0.26	0.20	0.79	0.78
	Std. dev.	135,794.08	2.76	0.52	0.44	0.96	0.42
	Min	368.55	6	0	0	0	0
	Max	1,033,620.25	20	3	2	4	1
	# obs.	1,859	1,859	1,859	1,859	1,859	1,859
2006	Mean	268,907.12	12.97	0.24	0.20	0.85	0.77
	Std. dev.	132,819.68	2.71	0.50	0.45	1.00	0.42
	Min	890.59	6	0	0	0	0
	Max	1,066,316.50	20	3	2	4	1
	# obs.	1,771	1,771	1,771	1,771	1,771	1,771

Table A2. (Continued)

Year	Statistic	Real non-labour income ^a	Length of schooling	No. of children aged 0–3 years	No. of children aged 4–6 years	No. of children aged 7–18 years	Dummy for densely populated area
2007	Mean	272,823.54	13.68	0.27	0.19	0.81	0.78
	Std. dev.	131,669.67	2.59	0.54	0.43	0.99	0.41
	Min	465.88	6	0	0	0	0
	Max	902,558.50	20	3	2	5	1
	# obs.	1,365	1,365	1,365	1,365	1,365	1,365
2008	Mean	291,271.22	13.86	0.25	0.21	0.87	0.78
	Std. dev.	144,369.18	2.56	0.51	0.45	1.01	0.41
	Min	588.94	6	0	0	0	0
	Max	1,094,694.63	20	3	3	5	1
	# obs.	3,125	3,125	3,125	3,125	3,125	3,125

^a NOK (in constant 1998-prices).

Appendix B: Explanatory power of choice and aggregate friction variables at the micro and macro level

Table B1. The importance of choice variables at the micro level

Models	<i>Model class</i>			
	<i>NU</i>	<i>FU</i>	<i>MU</i>	<i>BU</i>
One-stage selection				
Sample I				
Optimal model ^a				
Log-likelihood	-5,364.46787	-5,350.52639	-5,354.73833	-5,354.40890
AIC	10,758.936	10,723.053	10,731.477	10,728.818
Optimal model without choice variables				
Log-likelihood	-5,656.94585	-5,610.78807	-5,620.14993	-5,614.20649
AIC	11,327.892	11,227.576	11,246.300	11,232.413
Sample II				
Optimal model ^a				
Log-likelihood	-5,417.33133	-5,408.10473	-5,414.51270	-5,408.10473
AIC	10,860.663	10,836.210	10,851.025	10,836.210
Optimal model without choice variables				
Log-likelihood	-5,684.80831	-5,643.13075	-5,658.23496	-5,643.13075
AIC	11,379.617	11,290.262	11,322.470	11,290.262
Two-stage selection				
Sample I				
Optimal model ^a				
Log-likelihood	-5,353.39941	-5,345.52977	-5,346.27091	-5,347.81444
AIC	10,746.799	10,717.060	10,722.542	10,719.629
Optimal model without choice variables				
Log-likelihood	-5,646.20066	-5,608.42200	-5,614.09293	-5,609.42178
AIC	11,316.401	11,226.844	11,242.186	11,226.844
Sample II				
Optimal model ^a				
Log-likelihood	-5,397.87492	-5,394.10982	-5,410.013	-5,396.57824
AIC	10,835.750	10,818.220	10,844.026	10,821.157
Optimal model without choice variables				
Log-likelihood	-5,661.86769	-5,632.33597	-5,653.36821	-5,634.71096
AIC	11,347.735	11,278.672	11,314.736	11,281.422

^a Cf. Tables 3 and 5-7.

In the last column of Table A1 we report the empirical unemployment rates within Sample I.¹⁵ Let the time series we obtain when dividing these rates by 100 be denoted u_t . How do the different models perform with respect to explaining the variation in this unemployment rate? If we look at a specific model class and at one of the selection methods, we may consider three different models, Model 1-Model 3. Model 1 contains only an intercept, Model 2 contains all variables according to the optimally selected model except the eight choice variables. Finally, Model 3 corresponds to the selected model with both chance and choice variables. Let \hat{u}_{it}^j denote the predicted probability that individual i is unemployed in period t according to Model j , where $t \in T = \{1988q2, 1988q3, \dots, 2008q4\}$. Let J_t denote the set of females included in the sample in period t , and n_t the corresponding total number of females.

The predicted unemployment rate in period t according to Model j is given by

$$\hat{u}_t^j = \frac{1}{n_t} \sum_{i \in J_t} \hat{u}_{it}^j. \quad (\text{B1})$$

As a measure of how well the different models are capable of explaining the variation in the sample unemployment rate we employ the following measure

$$D_j = 100 \sqrt{\frac{1}{n_t} \sum_{i \in J_t} (\hat{u}_{it}^j - u_t)^2}, \quad j = \text{Model 1, Model 2 and Model 3.} \quad (\text{B2})$$

¹⁵ Corresponding empirical unemployment rates are available for Sample II.

Table B2. The explanatory power of different models at the macro level according to Model class and selection method

<i>Model class/Selection method</i>	Measures of deviation		
	$D_{\text{Model 1}}$	$D_{\text{Model 2}}$	$D_{\text{Model 3}}$
Sample I			
One-stage selection			
<i>NU</i>	0.965	0.848	0.671
<i>FU</i>	0.965	0.586	0.580
<i>MU</i>	0.965	0.640	0.609
<i>BU</i>	0.965	0.601	0.596
Two-stage selection			
<i>NU</i>	0.965	0.783	0.589
<i>FU</i>	0.965	0.561	0.532
<i>MU</i>	0.965	0.595	0.541
<i>BU</i>	0.965	0.572	0.556
Sample II			
One-stage selection			
<i>NU</i>	0.946	0.852	0.674
<i>FU</i>	0.946	0.617	0.619
<i>MU</i>	0.946	0.692	0.656
<i>BU</i>	0.946	0.617	0.619
Two-stage selection			
<i>NU</i>	0.946	0.731	0.539
<i>FU</i>	0.946	0.523	0.500
<i>MU</i>	0.946	0.658	0.623
<i>BU</i>	0.946	0.528	0.504