Career Consequences of Hyperbolic Time Preferences

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Abstract

In this paper I address theoretically and assess empirically the effect of impatience on workers’ on-the-job behavior. Theoretically, workers’ hyperbolic time preferences and the implied self-control problems explain several empirical regularities concerning job mobility and account for different on-the-job behaviors. Empirically, the effect of various measures of impatience on the relevant variables confirms the prediction of the model. On-the-job search on one hand and "collaborative behaviors" such as number of working hours, low absence rate, and effort on the other, are crucial aspects of mobility and individual wage growth. On-the-job search results in higher wages with the new employer while "collaborative behaviors" lead to permanent wage increases with the same employer, mainly through promotion or position change. I provide a model that shows that, for identically productive individuals, heterogeneity in hyperbolic time preferences accounts for different mobility and career patterns. Patient workers undertake behaviors that lead to promotions, they are more likely to be stayers and to follow fast-track-career paths with the same employer. Impatient workers are more likely to be movers and to experience wage increases by switching jobs. Hence, differences between stayers and movers are explained in terms of time preferences. I use a large longitudinal data set (NLSY 79) to test the main conclusion of the model implementing logit, panel and duration estimations. Various measures of impatience are positively correlated to the job arrival rate and negatively correlated to collaborative behaviors that lead to promotion and to large wage increase on the same job.

KEYWORDS: job search, hyperbolic discounting, self-control problems, personnel economics, job mobility, duration models, longitudinal data.

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1 Introduction

Why do some workers jump from job to job while others strive for promotion? Are there any psychological patterns that distinguish movers from stayers? Do self-control problems affect career paths? Empirical evidence points out that differences between movers and stayers, as well as between winners and losers on the job, especially at the beginning of their career, are only in part explained by observable and "standard" characteristics. A major contribution of this paper is to explore the effects of self-control problems that stem from time inconsistency in order to explain some empirical regularities that concern job mobility and career paths.

Suppose that an employed worker may experience significant permanent wage increases either by changing employer or with the same employer, for example through promotion or position change.\(^1\) The behavior of such a worker affects the arrival rates of these two events (a new job with a higher wage or on-the-job promotion). On the one hand, what I call \textit{collaborative behaviors}, e.g. high effort, working many hours, good relationships with managers and supervisors, low absence rate, currying favor with evaluator, increase the chance of permanent wage increases on the same job through promotion or position change (e.g., see Flabbi and Ichino, 2001 and McCue, 1996).\(^2\) On the other hand, on-the-job search increases the arrival rate of a new job offer (e.g., see Bloemen, 2005). In this paper I focus on the general class of time preferences that generate self-control problems - hyperbolic discounting - and I ask whether for identically productive individuals heterogeneity in time preferences accounts for different behaviors, i.e. collaboration and search, and thus for different career paths. To address this point theoretically and empirically the analysis brings together the hyperbolic discounting and the personnel economics literature using some standard findings on promotion, wage and recruitment policies (e.g., see Baker, Gibbs and Holmstrom, 1994; Gibbons and Waldmann, 1999; Lazear and Oyer, 2004; Lazear, 1979; Flabbi and Ichino, 2001).

Evidence on significant job-to-job mobility (Topel and Ward, 1992) suggests that the dilemma of whether to move or to stay is encountered in particular by young workers. The question of whether a behavioral trait such as impatience could contribute to explain different behaviors and labor market histories is important for two reasons. First, empirical evidence has detected that some workers are more likely to move between jobs than others (e.g. Munasinghe and Sigman 2004) but differences between individuals’ labor market histories regarding mobility and wage growth have been in large part attributed to unobserved characteristics.\(^3\) Second, in terms of wages and future wage growth the long-run expected gain from permanent wage increase on the same job (resulting from promotion, position change, bonuses, etc.) is gener-

\(^1\)Promotion are shown to be the main channel through which employee experience wage increases (McCue, 1996).

\(^2\)In this paper job is synonymous with employer and firm where all the jobs are organized hierarchically in several levels. The wage, besides to be the monetary compensation, is a measure of all the "good characteristics" of a job, e.g. work place, health insurance.

\(^3\)Analysis of company data set shows also that differences between winners and losers respect to promotion rates are not explained in terms of observable characteristics (Baker, Gibbs and Holmstrom, 1994).
ally much greater than the one from changing employer. Hence, it is not clear why a worker
should exert a positive level of on-the-job search effort sacrificing effort for collaboration.\footnote{Evidence is given in the next section. Obviously, this point is critical when firms do make counter-offers to retain workers that find new jobs. The practice of counter-offering to match alternative offers is important from the theoretical point of view (Postel-Vinay and Robin, 2002) but it is very limited in reality. Mortensen (2003) widely discusses this point arguing that it is not reasonable to assume counter offering unless one studies the US academic labor market (see also Moscarini, 2004).}
A crucial aspect of this point is the strong evidence that the arrival rates of wage increases and
the promotion rates are positively serially correlated (e.g., see Baker, 1997; Baker, Gibbs and
Holmstrom, 1994; Gibbons and Waldmann, 1999).\footnote{Some studies based on company data sets show serial correlation for wage increases (Dohmen, 2004; Baker, Gibbs and Holmstrom, 1994). See also the discussion in Munasinghe (2000).}

The theoretical part concerns a worker that has to decide how to climb the wage ladder, i.e.
staying or moving. In the basic setting collaboration and search are assumed to be substi-
tutes.\footnote{In particular a worker has to choose how to allocate one unit of time between search and collaboration. An extension of the model where this assumption is relaxed is provided.}
If we consider that on-the-job search requires time that could be invested in the task
assigned and more generally in collaboration this is not a strong assumption (e.g., interviews
with new employers may lead to absenteeism). Moreover, if search activity is observable, the
argument that search and collaboration are substitutes is also supported by loyalty concerns
since a worker who searches would not be promoted because her loyalty would be in question.

An important aspect of the worker’s choice is that benefits that result from collaboration are
not perceived as immediate as the rewards from job-to-job movements conditional on the ar-
rival of a better job offer. In order to enjoy benefits that stem from collaborative behaviors
such behaviors need to be observed for a considerable amount of time. Moreover, while movers
are employed immediately at the new wage once they change jobs, a worker who is promoted
receives the wage increases with a certain delay as for example Topel and Ward (1992) noted.\footnote{As they point out: "Inspection of the quarterly data revealed a strong tendency for within-job earnings changes to occur at annual intervals" (p. 456). This timing generally depends on the process of supervisors evaluation. In the company data set of Baker, Gibbs and Holmstrom (1994), the timing of the rating is "probably year-end given that bonuses are awarded on February 1 of the next year". Another strand of literature rationalizes the deferred gain from promotion with incentives concerns. (Leazer 1979; Dohem 2004.)}

Also, the serial correlation in promotion rates implies that some of the benefits of a present
promotion are materializing in the long-run.

In this setting, I restrict my attention to quasi-hyperbolic approximation of hyperbolic time
preferences (Phelps and Pollack, 1968; Laibson, 1997; Rabin and O'Donoghue, 1999). Quasi-

\footnote{As they point out: "Inspection of the quarterly data revealed a strong tendency for within-job earnings changes to occur at annual intervals" (p. 456). This timing generally depends on the process of supervisors evaluation. In the company data set of Baker, Gibbs and Holmstrom (1994), the timing of the rating is "probably year-end given that bonuses are awarded on February 1 of the next year". Another strand of literature rationalizes the deferred gain from promotion with incentives concerns. (Leazer 1979; Dohem 2004.)}
doing seven hours of an unpleasant activity on April 1 versus eight hours of the same activity on April 15, on February 1 prefers the first option. But when April 1 gets closer the same individual can reverse his preferences preferring to do eight hours of the unpleasant activity on April 15 instead of doing seven hours on April 1. This preference reversal is accounted by hyperbolic discounting but it is not compatible with the exponential discounting setting.

Hyperbolic discounting is important in this framework because it makes on-the-job search attractive and explains why workers search despite the fact that they would gain more by staying. The basic intuition builds on the two facts mentioned above. First, rewards (in terms of wage increase) that result from collaboration are not perceived as immediate as the rewards from job-to-job movements conditional on having received a better job offer. Second, since search implies to forgo future wage increases resulting from collaboration, it is an activity with a short-term reward (net of the search cost) and a long-run opportunity cost (renouncing large wage increases on the same job). Hence, if individuals cannot borrow from future wage increases, higher degrees of short-run impatience make immediate wage increases more valuable relative to the career opportunities within the job, the benefits of which are delayed. In other words "the short-run selves" of the workers tend to put more weight on the short-term reward from search and to put less weight on the implied long-run opportunity cost. This induces more impatient workers to search more and to switch job, thus differences between stayers and movers are explained in terms of time preferences. More general results extends to a framework where search and collaboration are not substitutes and endogenous separations that result from low collaboration are considered. In this case more impatient workers are movers because of both the immediate cost of collaboration and the short-term reward from moving that lead together to a low level of collaboration.

The time-inconsistency in preferences and the self-control problems implied by hyperbolic discounting are also analyzed. I distinguish between sophisticated and naive agents following Rabin and O'Donoughe (1999), where the firsts are aware of their self-control problems and the seconds are not. Moreover it is shown that in the standard setting of exponential discounting, heterogeneity in the long-run parameter of impatience cannot replicate the results of the model. For naives the "irresistible desire" of a job change is partly driven by the wrong belief that once they have found a job they will behave as exponential and thus will not search again. The self-control problems for sophisticates are even worse as they lead them to search more than the naives do. This result is very similar to the "sophistication effect" found by Rabin and O'Donoughe (1999) in the case of immediate rewards and delayed costs.

I test the main prediction of the model using the large data set of the National Survey Longitudinal Data on Youth (NLSY). To proxy patience I closely follow the most recent applied works on this issue - in particular DellaVigna and Paserman (2005) - and the psychological evidence on impatience. Smoking, not using of contraceptives, drinking alcohol, not having a bank account are some of the variables that are assumed to proxy impatience. When it is possible I exploit the panel structure of the data to control for permanent unobserved heterogeneity. I
identify a relation between one of the main collaborative behaviors, namely low absence rate, and impatience. It is shown that impatience affects negatively the decision to collaborate where the latter is found to be an important channel through which workers experience large wage increases on the same job. On the other hand, I show that the job arrival rate is positively affected by various measures of impatience. On this point I include in the analysis only those job-to-job transitions that are preceded by job terminations for reasons other than layoff, firing or end of temporary jobs. Since impatience could capture some types of unobserved productive skills, I also run regressions including many variables presumably correlated with ability such as father and mother education, family background, AFQT scores and years of schooling. Moreover I control for the type of occupation, the type of industry and the size of the firm. The impact of impatience is significant and strong even having controlled for these variables, suggesting that impatience contributes to explain the regularities addressed.

The contribution of this paper is twofold. For the labor turnover and personnel economics literature I sign theoretically and I test empirically the effect of impatience on workers’ on-the-job behaviors that lead to different career paths. In this respect I start from the work of DellaVigna and Paserman (2005) who analyze unemployed workers’ behavior concerning search effort. I extend their analysis to a situation with multiple choices facing employed workers that is more similar to the short-term reward and long-run cost case. The second contribution is related to this point. For the hyperbolic discounting literature I find an application with immediate costs and short-term and delayed rewards where the theoretical results are confirmed by the empirical analysis.

In the next section I summarize the empirical evidence on which the model is built. Next I develop a simple model that captures the effect of impatience on workers’ behaviors. Then, I present the empirical part of this study. Finally I draw conclusions.

2 Empirical evidence

2.1 Background

The decision to promote or not a worker is mainly driven by objective and subjective performance evaluation and eventually by worker’s behaviors, those termed as collaborative. Here the concern is on the casual link between collaborative behaviors and the arrival of (significant) permanent wage increases, that in general occur through promotion. For this reason I take into account promotions that are extensively studied in literature. However, looking only at

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8 Absenteeism can be used as a proxy for low effort (cf. Audas, Barmby and Treble, 2004, see also Flabbi and Ichino, 2001).

9 I do not consider automatic wage increases deriving from seniority that arrives independently from performance evaluations. Such annual return, when it exists, it is clearly much smaller than the return from a promotion or position change. Considering this aspect of seniority would complicate the analysis without changing the results.
the wage gains after promotion can be misleading for assessing the extent of the rewards from collaboration. As mentioned before, promotion at present predicts future promotions and the same collaborative behaviors that lead to promotion result also in substantial and systematic annual bonuses (e.g. see Gibbs, 1995). Hence, even if I will base the following discussion mainly on promotions, it is important to note that the "true" benefit from the collaboration is greater than the one from promotion only.

On the other hand, the decision to search for another job and eventually to move should be driven not only by the gain in terms of wage but also on the eventual gain in terms of future wage growth on the new job. For instance, a worker can move to a new job that offers a lower wage but greater opportunities of future wage growth. In the theoretical part I posit that the wage is a sufficient statistic for the value of the job by assuming that there is no heterogeneity in wage growth rates offered by employers. This assumption is supported by Topel and Ward (1992) and more recently by Postel-Vinay, Jolivet and Robin (2004) among others. I later relax this assumption and I show how the main proposition of the model is robust to different assumptions about the heterogeneity of wage growth rates. However, it is worth noting that in the model one can obtain heterogeneity of wage growth ex-post because of heterogeneity in the efforts for collaborative behaviors.

2.2 Average Gains

The idea that switching job is not so profitable as staying is very old in economics. By moving workers experience wage increases but at the same time this activity has a large opportunity cost in forgoing future wage increase on the same job. "The wastefulness of this 'try and try again' process of advancing to a better position is self-evident" (Slichter, 1919, p.216) and it was recognized by many economists.\textsuperscript{10} Recent progress in personnel economics such as the findings on the persistence of wage increases strengthens this idea. Wage growth within and between jobs has been extensively analyzed empirically especially among young workers and the most prominent work on this issue is Topel and Ward (1992). They find that job mobility is very frequent for young individuals. A job change with a different employer is usually associated to a twelve percent of increase in the wage rate but this increases is lower for workers with more experience. Unfortunately, for the the wage growth within the jobs they do not control for promotion and collaborative behaviors. Topel and Ward (1992) find that the average rate of annual wage growth for new entrants into the labor force was about the fourteen percent. Considering this estimation as the wage increase deriving from promotion\textsuperscript{11}, a new entrant in the labor force should expect a wage gain within the job greater than a wage gain from a

\textsuperscript{10}For example Mincer and Jovanovic (1981) recognize that frequent job changing may result in flat wage profiles. The sentence quoted is taken from Topel and Ward (1992) and proceeds: "The worker does not know in detail the nature of the job which he is obtaining nor does he know his own capacities. Nevertheless it is the principal method by which workers at the present time improve their working conditions".

\textsuperscript{11}Since they do not control for the event of promotion and for some collaborative behavior, it is without saying that such gains must be considered very conservative estimations for wage increases deriving from promotions.
job-to-job movement. McCue (1996) takes explicitly into account promotions and finds that the magnitude of wage growth due to job-to-job mobility is about the half of the one due to internal promotions. Similar estimates are also found by Pergamit and Veum (1999).\footnote{12} Other studies from which it is possible to infer similar evidence are Gerarth and Milkovich (1989) and Lazear (1992). Hence, on this evidence, I assume that average wage gain from moving to a new job is lower than the average wage gain deriving from a promotion.

2.3 Arrival Rates of Promotion and Job Change

As many have documented, job arrival rates for employed workers are mainly determined by the search intensity supplied (e.g. Bloemen, 2005). On the other hand, the arrival of a promotion is driven by what I have termed as collaborative behaviors. The emerging literature on personnel economics and on internal labor markets sheds light on this issue and provides some evidence. The arrival of promotions are positively correlated to the absence of misconduct behaviors and absenteeism (Flabbi and Ichino, 2001; Audas, Barmby and Treble, 2004). The absence rate is found to proxy (inversely) quite well the effort exerted by the worker to perform the task. Low absence rate is generally associated to a high performances evaluation that is a strong predictor for a promotion (Audas, Barmby and Treble, 2004). Besides these, there are number of collaborative behaviors. Working hard in terms of hours, e.g. more than 45 hours per week in McCue (1996), increases substantially the likelihood to be promoted. Yet, when effort is not observable and performance evaluation are subjective, the worker spends time to curry favor with his supervisor to get a good rating (Prendergast, 1999).

As I anticipated in the introduction, in the basic model I assume that collaborative behaviors are substitutes of on-the-job search effort. Under this assumption it is not clear why a worker supplies a positive level of search effort. Let $s \in [0, 1]$ be the search effort and suppose that on-the-job search and collaborative behaviors have either the same cost functions or that are both costless. Note that according to the latter assumption, $1 - s$ measures the intensity of collaborative behaviors. It should be noted that the majority of the studies on the job arrival rates do not control for individuals’ search effort. Hence, estimations on these arrival rates reflect optimal choices of (especially young) workers.\footnote{13}

Evidence suggests that for a given wage and for large firms that offer the possibility to be promoted, the probability of a promotion for a worker with the highest performance evaluation and with zero absence rate, that in our case corresponds to the case of $s = 0$, is higher than the probability to find a new job when search effort is at the maximum, $s = 1$. Also, the marginal effect of an increase in any of the collaborative behaviors on the probability to be promoted increases as the search effort decreases.

\footnote{12}Similar findings are documented also for Europe.  
\footnote{13}Topel and Ward (1992) find that annualized arrival rate to find a new job for young workers is very high at the beginning of their career and it stabilizes, after a couple of years of tenure, on the value of 0.2. Jolivet, Postel-Vinay and Robin (2004) estimate a job arrival rate between 0.09 and 0.22. The same holds for the arrival rate of a promotion, being higher at the first years of the career. According to McCue (1996), the annualized baseline arrival rate of a position change that brings about a wage increase is about 0.15.
promoted is higher than the marginal effect of search effort on the job arrival rate. Suppose that \( \gamma(1 - s) \), is the probability to be promoted and \( \lambda F(w) s \) is the probability to find a job that pays a higher wage than the current one, \( w \) (that is a sufficient statistic for the value of the job), where \( \lambda \) is a constant, \( F(w') = 1 - F(w') \) and \( F(w') \) is the c.d.f. the worker faces in the search process (details are given in subsection 3.3). Moreover let assume that all the jobs offer the same wage growth opportunities and that all the jobs are identical. Note that the main assumption implies that the derivative of \( \gamma(1 - s) \) with respect to \( s \), is \( -\gamma \). A rough calibration requires to assume \( \gamma \approx \lambda \). Let denote with \( A \) and \( B \) the gain at job change and the gain from promotion, respectively, in terms of lifetime utilities. If for the wage associated to \( A \) and \( B \), \( w_A < w_B \), for the gain in lifetime utilities we have also \( A < B \). The expected gains are \( \lambda F(w) s A \) and \( \gamma(1 - s) B \) and it is immediate to see that it is not clear why a should exert a positive level of search effort.

Note that this point may arise even if \( \gamma > \lambda F(w) \) were not satisfied. When the arrival rate of a promotion depends on the intensity of collaboration, the existence of the serial correlation in the promotion rates (Baker, 1997; Baker et al. 1994; Gibbons and Waldman 1999; Rosenbaum, 1994; Bruderl, Diekmann, and Preisendorger, 1991; Podonly and Baron, 1997) increases the value of staying and the long-run average gain from promotion and collaborative behaviors. The worker that exerts a high level of collaboration and that is promoted in the first period will expect a for the same effort a higher probability to be promoted again.

This question of why a worker exerts a positive level of search effort arises even in the case where there are positive costs for both the activities and the return to these activities are decreasing assuming, as usual, that the cost function are convex in the effort exerted. In general, the question arises when we do not rely on the existence of good and bad matches between employee and employer and when on-the-job search of a worker takes place on a job where she can experience promotion. In the theoretical part of the paper it is assumed that the jobs are equal in terms of promotions possibilities while in the empirical part we need to control for this possibility.

Finally, for the core of the results, it is necessary to remind that wage gains from promotion are not perceived as immediate as wage gains at job changes because wage increases from promotion are deferred, for example paid at the end of the year. This is a very general feature of the compensation schemes adopted by firms in case of wage increases, mainly through promotion (see also footnote 7). First a signal about the behavior of the worker, that may materialize in a evaluation, is observed and just later the reward for such a behavior is paid (e.g., see Laezer, 1979). In order to capture this fact, in the rest of the paper, I will assume that at time \( t \) the

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\[ 14 \] For the former marginal effect I take into account McCue (1996) that finds that working more than 45 hours brings about a 20 percent increase in the arrival rate of a promotion (see also Flabbi and Ichino, 2001 for absenteeism and misconduct episodes). For the latter marginal effect I consider the one measured by DellaVigna and Paserman (2005) that find that an increase in the search effort for unemployed workers, measured by the number of search methods, leads to a 15 percent increase in the job arrival rate for unemployed workers (usually unemployed workers receive more job offers than employed workers).
effort \( s \), conditional on the arrival of a job offer, may lead to an immediate job change, while the collaborative behaviors implied by effort \( s \) may lead to a promotion the benefits of which start materializing at time \( t + 1 \).

3 The Model

3.1 Time preferences

I adopt the structure of time preferences of Laibson (1997) as a simplification of hyperbolic time preferences. Consider the stream of per period utility deriving from consumption as \( u(c_t) \). The present value of a flow of future utilities at time \( t \) is \( u(c_t) + \beta \sum_{s=t+1}^{T} \delta^s u(c_s) \), where \( \delta \), is the discount factor that captures long-run patience and \( \beta \in (0, 1] \) is a parameter that reflects the short-run patience. For given \( \delta \), the higher is \( \beta \) the more patience is the individual. Clearly, given \( \beta \), the same holds for \( \delta \). For \( \beta = 1 \) we turn back to the exponential discounting standard case. For \( \beta < 1 \), time preferences are quasi-hyperbolic as the discount function approximates a hyperbole. As a consequence of quasi hyperbolic discounting, the discount factor between the current period and the next one is \( \beta \delta \), while the discount factor between any two periods other than the current and the next ones is \( \delta \). These preferences capture and stylize a simple fact documented by dozens of experiments (Ainslie, 1992; Kirby and Herrnstein, 1995; McClure, Laibson, Loewenstein and Cohen, 2004). Individuals do not behave according to the exponential discounting model where the rate of time preferences and the implied discount factor is constant. Individuals may suffer self-control problems that result from time inconsistency. Let suppose \( \beta = 0.9 \) and \( \delta = 0.99 \). In period \( t \) a reward of 10 that starts materializing in period \( t+3 \) is preferred to a reward of 9 that starts at period \( t + 2 \) \((\beta \delta^310 > \beta \delta^29)\). In period \( t+2 \), this preference is reversed by the same individual as \( 9 > \beta \delta10 \). It is immediate to see that these type of preferences involve self-control problems.\(^\text{15}\)

Following the tradition of the hyperbolic discounting literature we shall consider the different selves of the individual that in each period must take some decisions (Peleg and Yarii, 1974; Laibson, 1997; O’Donoghue and Rabin, 1999; Diamond and Koszegi, 2003). In particular in each period a self of the individual takes a decision over the control variable, e.g. self \( t + 1 \), self \( t + 2 \) at periods \( t + 1 \) and \( t + 2 \), respectively, and keeps the control over her period. In subsection 3.3 I distinguish between naive and sophisticated agents. The firsts are those who are not aware of their self-control problems, i.e. each self believes that future selves will have exponential time preferences. In other words the naives are overconfident in the ability to solve their self-control problems in that they think they will face in the next periods a \( \beta = 1 \). The seconds are aware of their self-control problems, i.e. each self knows how future selves will discount events and behave accordingly.

\(^{15}\)Many empirical regularities on consumption (Angeletos, Laibson, Repetto, Tobacman, and 2001; Laibson, 1997), drug addiction (Gruber and Koszegi, 2001), retirement (Diamond and Koszegi, 2003), saving plans (Madrian and Shea, 2001), unemployed worker behavior (DellaVigna and Paserman, 2005) among others, are explained better in terms of present biased preferences.
3.2 Three period model

The analysis concerns identical individuals possessing the same productive skills, i.e. those skills that enter the production function and increase the firm’s profit, because I want to address the question of whether heterogeneity in time preferences affects workers’ behavior and labor market histories for reasons other than those related to investments in specific or general human capital.\footnote{Indeed, it is well known that patience may capture some form of unobserved ability since more patient individuals are more willing to invest in their productivity (e.g. recently see Munasinghe and Sicherman, 2005).}

I develop the simplest model that shows the core of the results: a three period time model where the first and the second period the worker chooses the intensity of her behavior concerning collaboration and search. An employed worker searches for a job by drawing a sequential random wage sample from a stationary c.d.f $F(w')$, continuous on the support $[w', w]$, with the first moment, $F'(w')$, positive. We denote $1 - F(w')$ with $\overline{F}(w')$, where, clearly, $\overline{F}(w')$ is the probability that a wage offer is at least a greater as $w'$, and $\overline{F}(w') = 1$ and $\overline{F}(w) = 0$. Without loss of generality I take the promotion as the only way through which workers experience wage increases. For each job, worker who is employed at the wage $w$ and is promoted experience a wage increase $w^p - w$ according to a deterministic function $\Phi(w) = w^p$, where the generic wage $w$ with the superscript $p$ denotes the wage after promotion for a worker that before promotion earned $w$ and $\Phi(w)$, with $\Phi'(w) > 0$, maps continuously the wage $w$ into $[w, \overline{w}]$. The wage $w^p$ is the same across all the jobs, that is all the jobs offer the same opportunities in terms of wage growth. The only restriction on $\Phi(w)$ is stated in Assumption 1 (see below).

The worker must choose the search effort $s \in [0, 1]$ that determines how often the distribution of wage offer is sampled. Let $E(w' | w' > w)$ the expectation of $w'$ conditional on $w' > w$. Based on the discussion in the previous sections the main assumptions follow:

**Assumption 1** For any wage rate $w$, $F(w')$ and $\Phi$ are such that $E(w' | w' > w) > w^p$.

**Assumption 2** An increase in worker’s search effort reduces the intensity of collaborative behaviors.

**Assumption 3** The worker employed at wage $w$ that experiences a promotion in period $t$ is paid according to the wage $w^p$ in period $t + 1$. The worker that moves to a new job at period $t$ is paid the new wage in the same period.

**Assumption 4** Search is more costly than collaborative behaviors. The relative cost of search respect to collaborative behaviors, $c(s)$, is increasing and convex in $s$.

The first three assumptions accounts for the discussion of the previous section.\footnote{For the Assumption 1 the majority of the studies find that $w^p$ is about two times $E(w' | w' > w)$.} Assumption 2 implies that the effort for collaborative behaviors is $1 - s$, i.e. the worker allocates one unit of time between search and collaboration. In sub-section 3.5. the results of the model are
shown to hold in the case the worker is allowed neither to search nor to collaborate and to enjoy a benefit from this type of activity. Assumption 4 is nor necessary neither sufficient for the results of the model but it is seems reasonable. Unlike search there is no evidence that all the collaborative behaviors are costly. For example it is difficult to believe that the absence of absenteeism episodes has a positive cost besides the opportunity cost of doing something else during the absence period. Assumption 4 states that for example an additional paid hour of work is less costly than an hour of on-the-job search. The same results hold in a more general setting where collaborative behaviors are assumed to be costly as search, more costly than search (although this case does not really seem realistic), and costless. These variations are proposed in the Appendix B.

Denote with \( \lambda s \) the probability to find a job, where \( \lambda \) and \( s \in [0,1] \) are the search effort and the constant search efficiency parameter, respectively. Note that \( s \) determines just how often the c.d.f \( F(w') \) is sampled and that the arrival rate of an acceptable job offer depends on the current wage, \( w \), and is equal to \( \lambda F(w)s \). Based on the discussion of the previous section, for the sake of simplicity I posit \( \lambda (1 - s) \) to be the probability that the worker experiences a promotion without considering serial correlation in promotion rates.

Assuming that the joint probability of a promotion and of a job offer is negligible in the interval of time considered, the worker in period \(-1\) (self \(-1\)), employed at the wage \( w \), chooses the search effort to solve:

\[
\max_{s \in [0,1]} w - c(s) + \lambda s \beta \delta \left[ \int [V_0(w') + (1/\beta \delta) w', V_0(w) + (1/\beta \delta) w] dF(w') \right] + \\
+ \lambda (1 - s) \beta \delta V_0(w') + (1 - \lambda) \beta \delta V_0(w),
\]

where \( V_0(w) \) is the lifetime utility of employment at wage \( w \) at period 0.

**Lemma 1** The objective function (1) is an increasing function of the current wage, \( w \).

This derives from the fact that I assumed that all the jobs offer the same opportunities in terms of wage increases. Therefore an employed worker move to another job if and only if it pays a higher wage. Using Lemma 1 the objective function of the worker may be written as follows:

\[
\max_{s \in [0,1]} w - c(s) + \lambda s \int_{w}^{w'} (w' - w) dF(w') + \\
+ \beta \delta \left\{ \lambda s \int_{w}^{w'} [V_0(w')] dF(w') + \lambda (1 - s) [V_0(w')] + [1 - \lambda (1 - s F(w))] V_0(w) \right\},
\]

(all the proof are in the Appendix). The first line of eq. (2) is the immediate payoffs in the current period. Namely the wage rate minus the cost associated to the search effort \( s \), \( c(s) \), plus the immediate gain from finding a new job. The second line is the continuation

\[\footnote{Indeed, a reasonable interpretation is that collaborative behaviors are a by-product activities of non-search and to this extent costless.}\]
payoff in the next period that is discounted by the factor $\beta \delta$ and that is divided in three terms. With probability $\lambda s$, if the offer is acceptable, the worker experiences the continuation payoff from moving to a new job, $\int_{w'}^w [V_0(w')]dF(w')$. With probability $\lambda(1 - s)$ the worker experiences a promotion and the gain that starts materializing at period 0 is $V_0(w^p)$. Finally with probability $1 - \lambda(1 - s)F(w)$ the worker remains employed at the same job, without experiencing a promotion, with continuation payoff $V_0(w)$. The continuation payoffs at period 0 for self $-1$ from remaining at the same job without a promotion, from changing job, and from remaining experiencing a promotion are, respectively:

$$V_0(w) = w - c(s) + \lambda s \int_{w'}^w (w' - w)dF(w') +$$

$$\delta \left\{ \lambda s \int_{w'}^w w'dF(w') + \lambda(1 - s)w^p + [1 - \lambda(1 - s)F(w)]w \right\} ,$$

(3)

$$V_0(w'') = w'' - c(s) + \lambda s \int_{w''}^w (w' - w'')dF(w') +$$

$$\delta \left\{ \lambda s \int_{w''}^w w'dF(w') + \lambda(1 - s)w'' + [1 - \lambda(1 - s)F(w'')]w'' \right\} ,$$

(4)

$$V_0(w^p) = w^p - c(s) + \lambda s \int_{w^p}^w (w' - w^p)dF(w') +$$

$$\delta \left\{ \lambda s \int_{w^p}^w w^pdF(w') + \lambda(1 - s)w^{pp} + [1 - \lambda(1 - s)F(w^p)]w^p \right\} ,$$

(5)

where $w^{pp}$ is the wage of a worker who experiences the second promotion and $w''$ is the realization of a new wage offer when the worker is employed at the wage rate $w$, i.e. $\int_{w'}^w w'dF(w')$. In these expressions, the continuation payoffs at period 1, i.e. those multiplied by $\delta$, consist of the wages only because period 1 is the terminal period. Moreover in these expressions the short-term discount rate $\beta$ is not present because they are the continuation payoffs for self $-1$ once the drop in the discount rate has already occurred. Note that this structure of time preferences implies that self 0 at period 0 will solve her maximization problem applying a discount factor equal to $\beta \delta$. Therefore, in the optimization problem self $-1$ of a sophisticated agent will take into account this aspect while the naive does not.

I start by signing the effect of impatience on search effort for self $-1$ by deriving the first order condition for self $-1$ from equation (2) abstracting for the moment from sophistication and naivete (the analysis of the solution of the game implied by hyperbolic discounting is offered in the next subsection):

$$c'(s) = \lambda \int_{w'}^w (w' - w)dF(w') + \beta \delta \lambda \left\{ \int_{w'}^w [V_0(w') - V_0(w)]dF(w') + [V_0(w) - V(w^p)] \right\}$$

(6)
Technical assumptions that guarantee an interior solution are provided in the Appendix A. It is immediate to see that in expression (6) the part multiplied by $\beta \delta$ is negative. Despite this, the first order condition may deliver a positive level of search effort. Moreover, from (6) the following Lemma is derived.

**Lemma 2** The marginal benefit from search is decreasing in $w$.

**Assumption 5** Assume that there exists critical wage $w^R$ such that the gain from search is zero, i.e. the RHS of equation (6) is zero.

This assumption implies that the employed job seekers are only a share of the total labor force, and that this portion is mainly concentrated in the left tail of the wage distribution. This is something on which there is strong evidence. Moreover, note that the literature on hyperbolic discounting finds that the values of $\beta$ across individuals lies in the interval $[3/5, 1]$ while for $\delta$ the range is $[0.95, 9/10]$ at a weekly basis. An important point is that $\delta$ cannot vary as $\beta$ across individuals.

**Lemma 3** The optimal level of search effort is positive and strictly decreasing with respect to $w$ for any $w < w^R$. For $w \geq w^R$ the optimal level of search effort is equal to zero. The critical wage $w^R$ is decreasing with respect to $\beta$ and $\delta$.

Based on this Lemma it possible to construct a very simple exercise of comparative statics by considering two workers.

**Proposition 1** Let worker 1 and worker 2 have the same $\delta$ and different $\beta$, with $\beta_1 < \beta_2 = 1$ and let denote by $w^R(1)$ and by $w^R(2)$ the critical wages of worker 1 and 2, respectively. Then, for any $w < w^R(2)$ the search effort of worker 1 is higher than the search effort of worker 2.

Therefore, an hyperbolic discounter searches more than an exponential one. Proposition 1 can be easily generalized by saying that more impatience workers in general search more and are more likely to be movers (see sub-section 3.5).

For this and the next results equation (6) is fundamental. In particular for Proposition 1 to hold it is necessary that the term multiplied by the $\beta \delta$ is negative. I argued that indeed in general this is the case as long as it represents the opportunity cost of moving. The fact that the long term reward from promotion is greater than the long term reward from changing job is a sufficient but not necessary condition in order to have the term multiplied by the $\beta \delta$ negative. It is intuitive that as long as the results depends on this point, assuming serial correlation in promotion rates reinforces the results conveyed by Proposition 1.

### 3.3 Equilibrium for sophisticated

In this subsection I distinguish between sophisticated and naive agents. As it was shown for several aspects of decision making, differences between naives and sophisticates have different
behavioral implications. I start from the sophisticates that are those who are aware of their self-control problems, i.e. they predict how future selves behavior. Sophistication involves a conflict between self $-1$ and self 1 as the current self has rational expectations on the behavior of future selves. To see the conflict note that from the perspective of self $-1$, the evaluation at period 0 of the payoff accruing at period 1 is different than the one that is made by self 0. Self $-1$ and self 0 may disagree on the decision to be taken because self 0 cares about self 1 relatively less than self -1 cares. As originally Strotz (1956) pointed out, an individual affected by inconsistent time preferences and aware of her self-control problems can attenuate and eventually solves her problem in two ways. The first possibility solves the self-control problem and consists of precommitting future selves behavior. In the three period model, for example, self -1 could commit self 0 to behave according to her time preferences. This is possible when there exists a commitment technology that forces future selves to follow some behavior. As a second possibility, when there is no commitment technology, the individual attenuates her self-control problem by finding a "consistent planning" where in every period the choice of the current self anticipates, and it is optimal respect to, the choices of future selves. In this case the different selves of the individual are involved in a strategic environment and the solution is therefore game theoretic in that the current self plays a game against future selves. More precisely, this is called an intrapersonal game that is basically a stochastic sequential game with perfect information.

In order to sketch how we may find the solution, let solve the model by backward induction for the three period model in the case self 0 earns wage $w$. For example, this case can be the one in which self 0 has the same job of self $-1$, i.e. the worker at period $-1$ has not experienced either a promotion or a job change. I start by analyzing the choice of self 0 as for self 1 the there is no choice. The first order condition for self 0 at period 0 is the following:

$$c'(s) = \lambda \int_{w}^{w'} (w' - w) dF(w') + \lambda \beta \delta \int_{w}^{w} (w' - w) dF(w') + (w - w^p)$$

From the perspective of self -1, however, the f.o.c at period 0 is $\beta \delta c'(s) = \lambda \beta \delta \int_{w}^{w'} (w' - w) dF(w') + \lambda \beta \delta^2 \int_{w}^{w} (w' - w) dF(w') + (w - w^p)$, that is:

$$c'(s) = \lambda \int_{w}^{w'} (w' - w) dF(w') + \lambda \delta \int_{w}^{w} (w' - w) dF(w') + (w - w^p)$$

From these expressions it easy to see that if $w$ is such that the RHS of (8) is positive self $-1$ disagrees on the optimal level of search effort that self 0 will supply. Note that this argument applies also to a N finite period model where the conflict exists between the selves $i$ and $i + 1$ of the individual. Let define by $w^R_{t,i}$ the wage rate from the perspective of self $i$ according to which self $t$ at period $t$ should not search. Hence, for the three period model, $w^R_{0,-1}$ and $w^R_{0,0}$ are the wages according to which the RHS of eq. (7) and (8) are equal to zero, respectively. We have that $w^R_{0,0} > w^R_{0,-1}$ and, as a consequence of Lemma 2, for any wage rate $w \in [w^R_{0,-1}, w^R_{0,0}]$ self -1 wants self 0 not to search. For any wage rate $w < w^R_{0,-1}$ self $-1$ thinks that self 0 will
search too much. For any wage rate \( w > w^R_{0,0} \) self -1 and self 0 both agree on not searching.

From this example we can see that self -1 knows the search effort implied by (7) for self 0. Self -1 therefore anticipates the behavior of self 0 in the sense that his choice about search effort is an optimal response to self 0 and to himself in the stochastic sequential game. Analytically, such an optimal response is found by substituting in the continuation payoffs \( V_0(w), V_0(w') \) and \( V_0(w^p) \) of eq. (6) the search effort of self 0 implied by the self 0’s f.o.c. (7). The equilibrium concept is a Nash equilibrium in Markov strategies that for each self (player) and for each wage (state) specifies implicitly the optimal search effort. Let define the optimal search effort policy function for self i as \( s^*_i : [w, \overline{w}] \rightarrow [0, 1] \).

**Proposition 2** A unique Markov-perfect subgame-perfect equilibrium of the above game exists for each self.

Clearly in the three period model this proposition applies to self -1. However this proposition can be generalized to a N finite period model (see sub-section 3.5). The existence of an equilibrium for the three period model is immediate to see and it is based on standard arguments. Lets turn on the analysis of the possibility of commitment. If self -1 in period -1 were employed at a wage that lies in the interval \([w_{-1,0}, w_{0,0}]\) she would commit self 0 not to supply a positive level of search effort, whatever the worker experiences in period 0. The following proposition states that in general the sophisticated worker is willing to pay a positive price for a commitment device that attenuates her self-control problem.

**Proposition 3** There exists for self -1 an \( \alpha > 0 \) such that for \( w < w^R_{0,0} \) a decrease in the search effort of self 0 from \( s^*_0 \) to \( s^*_0 - \alpha \) increases the net present utility of the welfare of the selves of the individual evaluated in period -1.

Intuitively, such a commitment can be contract signed by self -1 that commits the worker to pay a penalty for a job change of an amount such that the net gain from search induces the next self to exert the search effort self -1 would like self 0 exerts if such commitment was not available.

### 3.4 Equilibrium for exponential and naives, and naivete and sophistication

The definition of naivete implies that agents believe that their continuation payoffs are the same of an exponential agent, that is to say they believe that future selves will behave according to a \( \beta = 1 \). In other words, they are overconfident that future selves will not have the self-control problem that they are currently facing. Formally, taking into account the continuation payoffs (3), (4) and (5) of the three period model, the naive believes that the search effort in those payoff is the one supplied by an exponential agent. Such agents are not consistent in their plans as they revise continuously their optimal choices. However, in this case of naivete there is no intrapersonal games among the selves. For our simple setting the solution is trivial as we need to take into account how self -1 chooses the search effort when he believe that self 0 will choose
as an exponential agent. When the selves are more 3, the solution to the problem of the worker in each period and for each wage is not found by solving a standard dynamic programming problem. The solution is found by considering the optimal choice of the single self $i$ at time $i$, for all $i$, facing a per period discount factor equal to $\beta \delta$. Therefore, by strict convexity of the cost function, continuity of the c.d.f. of wage offers, standard arguments lead to the existence and uniqueness of the equilibrium. The same argument for the existence and the uniqueness applies to the case of exponential agents. In such a case, however, the derivation of the optimal search effort policy function is made from the first period on. Indeed, in the standard case of exponential agent, the optimal search effort as a function of the current wage remains the same over the different period because the individual has no incentive to revise her search function across periods.

It is interesting to derive the behavioral implications of naivete comparing it with sophistication and with exponential. Some algebra leads to the following Proposition.

**Proposition 4** The self $-1$ of a sophisticated worker supplies a $s^*$ that is higher than the one supplied by the self $-1$ of a naive worker.

The proof of this proposition implies that search effort in the present and search effort in the future are complements. In other words the higher is the search effort of the next self the higher is the optimal effort of the current self. This raises a multiplicity issue of equilibria in the infinite horizon case (that we do not address in this paper). The intuition for the last proposition is not immediate. As the naive, the sophisticated has a present bias in time preferences that induce her to exert a high level of effort. Unlike the naive, the sophisticated, by searching less, increases the chance to attenuate her disagreement with see self 0 simply because, being promoted, since the gain from promotion is much higher than the one at job change, self 0 could earn a wage that induce self 0 to exert a search effort equal to zero or very low. However this incentive does not lead the sophisticated to exert a lower effort than the one exerted by the naive. Instead, exactly because the sophisticated predicts correctly future selves behaviors exerts a higher effort than the one she would exert if she did not predict correctly what is the discount rates of the next self. The intuition is that the sophisticated is embedded with a sort of "pessimism" for future selves behavior that induces her to behave in this way. This very similar to the "sophistication effect found by O'Donoughue and Rabin (1999) in the case where the sophisticate individual faces immediate rewards.

Interestingly, the model and Proposition 4 raise also an issue between employer and employee. Suppose an employer that is committed not to match alternative offers observes her employee searching on-the-job. As long as the employer suffers a loss from the employee turnover, the employer will have an incentive not only to convince the employee to stay by waiting for promotion but also to convince the her that she is a naive individual and that by moving at the present she will move again in the future.
3.5 Robustness and Extensions

In this section I show the robustness of the the model to different specifications. The core of the results is based on the fact that for Proposition 1 the term multiplied by $\beta\delta$ must be negative. This is the long-run opportunity cost of moving that as discussed is positive. In order to offer a stylize model the probability to obtain a promotions at $s=0$ is assumed to be the the same of the one of obtaining a job offer at $s=1$. Also, the marginal increases in the probabilities with respect to additional units of search efforts and effort in collaborative behaviors are assumed to be equal. Even if some empirical studies support this assumption, we can observe that the term multiplied by $\beta\delta$ remains negative for different probabilities specifications. This is because the gain from collaborative behaviors, that include those from promotion, is approximately much greater that the average gain from a job change and because of the existence of serial correlation in promotion rates documented by the personnel economics literature.

A major concern is that in the previous section the result may appear to depend crucially on the fact that the worker is not allowed to choose to do neither search not collaborative behaviors. In the Appendix B this case is analyzed assuming also that ”doing nothing” has a positive and immediate value for the worker. Note this is equivalent to relax Assumption 2 as the worker is allowed to contemporaneously decrease the search effort and the intensity of collaborative behaviors. Although I believe that is not reasonable to assume the existence of activity of ”doing nothing”, I show the conditions that lead to the same results of the model presented above. Moreover an extension of the model is present in the Appendix B where the cost of search and of collaboration are treated separately is also provided. In this case it is shown that the Assumption 4 is not necessary.

One of the conclusion of the model concerns stayers and movers where the movers are those who switch job. However it is reasonable to assume low collaboration implies an endogenous probability of separation for reasons other than from those that lead to voluntarily job-to-job movements, e.g. firing. In the Appendix B it is shown how the results extends to this framework. In this case more impatient workers are the movers that switch job and get separated.

I developed a three period model for the sake of simplicity. Is it possible to generalize the model to a finite $N = i, i + 1, ..., N − 1$ period model? The answer depends on whether Proposition 2 applies also to the N finite period model. Concerning the existence, the extension to the N period model do not cause difficulties. Such difficulties would arise if for some self there were two optimal choices. In this case there would be a jump from a maximum to another one and the earlier self’s maximization problem may not have solution.\textsuperscript{19} Such an equilibrium in a finite period model is generally unique as for the tree period model at the terminal history there is no self that is indifferent between two states. Given that Proposition 2 holds for the N finite period model, also do Proposition 3 and 4. Indeed the conflict between self $−i$ and $−i + 1$ is the same between self $−1$ and self 0 in the three period model.

\textsuperscript{19} Peleg and Yarii (1973) were the first to point out that an equilibrium strategy may fail to exist when the discount rate is not constant across periods and when there are more than three periods.
3.6 Heterogeneity in Wage Growth

Another concern is the absence of heterogeneity in the wage profile offered by employers even if the model implies ex-post heterogeneity if the workers differ in time preferences. The formalization of heterogeneity would complicate the model and the reservation wage would no longer be the current wage. Suppose that the wage within the job evolves as \( w^p = w + \epsilon(w - w) \) where \( 0 < \epsilon < 1 \). Heterogeneity of wage growth rates could be introduced by assuming a continuous distribution for \( \epsilon \). However, by looking at condition (6) it is possible to understand whether the results conveyed by Proposition 1 change in the case the worker face a c.d.f. of jobs with different wages and with low and high \( \epsilon \). Consider four possibility, combining for the sake of simplicity low and high \( \epsilon \) with low and high current wage. First, consider a worker employed at a low wage and high wage growth. In this case the long run benefit from promotion is still greater than the long run benefit from changing job and in eq. (6), i.e. the term multiplied by \( \beta \delta \) would be still negative and the results of Proposition 1 hold. That is, in such a job, we would observe that the more impatience workers search more, they are less likely to experience wage increase and more likely to be movers. The same holds for a worker that is employed in a job at a high wage and high wage growth as long as the wage is not the one that makes the marginal benefit from searching equal zero. Now, let consider the case where the worker is employed at a high wage but a low wage growth. In this case the result could be ambiguous. However, even if the long run benefit from promotion is low, the long-run benefit from changing job can be even smaller because the job arrival rate is small due to the fact that the current wage is high. Therefore also in this case the more impatient would search more. Finally, let consider the case of low wage and low wage growth. This is the only case in which the message conveyed by Proposition 1 does not hold. In this case we would observe more patient workers search more than more impatient. In the empirical part I will take into account this point. However, the relevance of this case is very limited. Notice that observing patient workers sorted in low wage growth is very unlikely as Munasinghe and Sicherman (2005) argue and show empirically.

4 Empirical Results

I use the National Longitudinal Survey of Youth (NLSY) to test the main conclusion of model. In the NLSY there are many variables that can proxy impatience. On this point I closely follow the procedure of DellaVigna and Paserman (2005) (DVP (2005) thereafter) that on the same dataset construct an aggregate measure of impatience. To sum up, the main goal is to identify the effect of impatience on workers’ on-the-job behaviors regarding search and collaboration through which workers experience different career paths.

4.1 Employment spells in the NLSY

The NLSY79 is a representative sample of 12,686 young men and women residents in the US who were 14-22 years old when they were first surveyed in 1979. These individuals were interviewed
annually through 1994 and are currently interviewed on a biennial basis. Individuals were interviewed on a large number of questions on their labor market history, family and social background, education, attitudes etc. From the work file history information on employment are available on a weekly basis. I construct the labor market history of each single individual from the 1979 to the 1996. In particular it is possible to link the employers of each individual from two contiguous years and to detect a job-to-job movement. Information on the jobs held by individuals include the corresponding wage rate, size of the firm (just for some jobs), types of occupation and industry. For the concern of the paper, I classify as job-to-job transition each employer change that occurred with a wage increase and such that the difference between the start date of the new job and the stop date (in weeks) of the previous one is between zero and two. This procedure rules out multiple jobs holdings, jobs where individuals work less than 20 hour per week and jobs hold by individuals that are less than 16. Here the assumption is that voluntary job-to-job mobility are driven by higher wages and to this extent wages are a sufficient statistics for the value of the jobs. There are precedents for this approach (more recently Postel-Vinay, Jolivet and Robin, 2004) which validity is based on the evidence that the wage rate besides to be an important variable for worker’s decision is a good measure for all the amenities a job offers\(^20\) and for wage growth opportunities. Moreover I retain only those spells that were reported in 1985 or later until 1996 by respondents that were not enrolled in school and were not part of the military subsample. The measures of impatience (e.g., smoking) could depend on the labor market history of individuals. The first restriction - 1985 - is necessary because all the relevant measures of impatience are reported prior to 1985. In this way exogeneity of impatience is preserved. Accordingly, there is only right censoring where the jobs that were ongoing on 1996 are censored. Among the the job-to-job transitions it is possible to distinguish those that derive from reasons such as firing, laid off, plant closed, pregnancy, end of temporary or seasonal jobs etc. I include in the analysis only those job-to-job transitions that are preceded by job terminations for reasons other than layoff, firing, plant closed, pregnancy and end of temporary jobs (see for more details the tables). Table 1 gives summary statistics. It is worth noting to note that the general results are very similar to those of previous studies on the same sample (e.g. see Postel-Vinay, Jolivet and Robin, 2004).

4.2 Measures of Impatience

As anticipated I use the same measures of impatience of DVP (2005), the same procedure to construct the aggregate measure of impatience and the same assumptions. Therefore, I briefly report the discussion in DVP (2005) on these empirical matters. The assumptions are the following. "First, higher measures of impatience may be associated with either higher short-run \((1 - \beta)\) or higher long-run \((1 - \delta)\) impatience. Second, the individuals discount rate is the same across different activities. Third, the ranking of individuals with respect to impatience does not vary over time.” (pp. 16, DVP (2005)). Among the variables that are used to proxy

\(^{20}\)For example, Hwang, Mortensen and Reed (1998) find that the jobs that pay higher wages are those that offer higher amenities.
impatience, DVP (2005) individuate the following: 1) smoking behavior, 2) alcohol behavior, 3) contraceptive use, 4) no life insurance on the job and 5) having a bank account, 6) NLS assessment of impatience. For the first three, the intuition of why such a behavior can capture impatience is very simple. These behaviors point out a preference for today versus tomorrow. For the smoking behavior, Fuchs (1982) finds evidence that high rates of time preference are associated to smoking. In the NLS individuals are asked about smoking and alcohol behavior in 1984 and in 1983. I create two dummy variables that are equal to one if the individuals smoke at least more than one cigarette per day and if they use to have heavy drinking. For the contraceptive use it is reasonable to believe that more impatience individuals have sexual intercourse without contraceptives. The logic is that contraceptives have a cost today and that the non-use in sexual intercourse may be preferable. Hence, those that do not use contraceptive are the impatient as they give a high value to the present relatively to the future cost of eventual diseases or undesired pregnancies. Following DVP (2005) I assign a missing value to those that are married and that did not use any birth-control method. For the fourth measure, those that have no life insurance on the job are considered as impatience (cf. DVP (2005)). Also in this case, it is necessary to adjust the raw measure by partialling out the effects of marital status, children and age. For the fifth measure, those that have a bank account are considered patient (see DVP (2005)) for a discussion on this point). The intuition here is built on an example from O’Donoghue and Rabin (2001) that show that an naive individual with a a low short-run discount rate may procrastinate for ever a financial operation with small cost and delayed benefits. The last measures (NLS assessment) derives from a question to the interviewer that reports the behavior of the respondent. Among the possible answers there is also "impatient". For this measure it is necessary to adjust for the length of the interview. Unlike DVP (2005) I retain also workers of all the races and women. By taking into account contraceptive use as they do, in my case attrition shrinks the sample from about 9000 individuals to 2000 individuals. Moreover, unlike DVP (2005) I add another variable, drug use, by weighting the use of hashish, cocaine and marijuana. Following their procedure, I find out an aggregate measure of impatience with factor analysis. I estimate a factor model via maximum likelihood. There is just one factor to be retained that accounts for more than the 60 percent of variance and for which all the factor loadings have positive sign. The conjecture is that this factor is impatience. In my procedure, the Cronbach reliability measure is 0.3327 that reflects the average correlation equal 0.0652. Both measures are higher than those obtained by DVP (2005). However I obtain similar effects (in magnitude and significance) of impatience on the relevant variables by using the aggregate measure of impatience by closely following DVP (2005). Low correlation in this case is an expected result (see DVP, 2005) as the variables taken into account are noisy measures of impatience. Table 2 lists the average measures, the factor loadings and the score coefficient to create the aggregate measure of impatience. Each measure is standardized to one in order to obtain an aggregate measure with mean zero and standard deviation equal to 1. In table 3 I report the mean of each adjusted measures of impatience for

\(^{21}\) Also Munasinghe and Sicherman (2005) use smoking as a proxy for impatience.
individuals that have at least one, two and three spells. With the increase of the spells the mean for each measures is increasing. This is an approximate form of evidence we are looking for: completed spells are associated with level of variables that proxy impatience above the mean of the population.

4.3 Impatience and Exit Rate

I take into account only the spells that do end for reasons other than those that have to do with layoff, plant closed, end of temporary/seasonal job, discharged of fired, program ended, quit for pregnancy/family reasons. I estimate a Cox proportional hazard model (Cox, 1972). This model is particularly convenient for our purpose and it has been used whenever the interest is on how a particular trait or independent variable affects the probability that a certain event occurs conditional on the time elapsed in the current state. In this case the proportional hazard model estimates rate at which an employed worker move to a better job as a function of the time elapsed in the current one. Moreover it allows to capture how the aggregate measure of impatience, as well as other covariate, shifts such hazard rate in a proportional manner. Recall that the definition of the employment spells excludes those that are preceded by job terminations for reasons due to layoff, firing, plant closed, pregnancy and end of temporary jobs. The exclusion of these spells plays a key role for the identification of the effect of impatience on the job arrival rate. Indeed, the focus is on voluntarily job-to-job transitions and it is possible that more impatience workers change jobs more frequently because are more frequently fired or because are sorted in temporary jobs. The hazard rate I estimate is written as

$$\lambda(t_i|x_i, \beta) = \lambda_0 exp(x'_i \phi)$$

where $t_i$ the observed duration of an employment spell, $\lambda_0$ is the baseline hazard rate and $\phi$ is the vector of coefficients on the explanatory variable $x_i$ for individuals $i = 1, 2, ..., N$. An important feature of the Cox model is that it is not necessary to assume any parametric structure for the baseline hazard rate. This makes in a certain sense the model non-parametric. As in DVP (2005) I treat each of multiple spells by the same individual as separate observations but at the same time I handle this form of clustering by estimating the model with robust standard errors (see Lin and Wei, 1989). The set of covariates $x_i$ contain the aggregate measure of impatience and other explanatory variables.

In table 4 the effect of the aggregate measure of impatience on the hazard rate by running the regression with the wage, race, sex, years of schooling is reported. The coefficient on impatience is significant, positive and large. A two standard deviation increase in the aggregate measure of impatience leads to a 27 percent increase of the job arrival rate. Education attainment do not have a significant coefficient while the coefficient on wage is significant and negative. However the wage does not seem have an impact so strong as the measure of impatience on the job arrival rate. The coefficients on the dummies on race and sex are positive and significant. Males and white people experience higher job arrival rates while the coefficient on age is strongly negative.
These results are in line with previous studies on mobility.

However, as usual these estimates could be biased if the aggregate measure of impatience are positively or negatively correlated with variable that affect the probability of a job change and if these variables are omitted from the regression (see DVP, 2005). Therefore in the second part of the Table 4 I report the results by estimating the model including a large set of variables such as AFQT score, parental education background, region, occupation, industry (for the entire set see table). Now the effect of impatience is lower but still strong and significant. In this case a two standard deviation increase in the aggregate measure of impatience leads to a 22 percent increase of the job arrival rate. The fact that the effect of impatience is strong and significant even when controlling for education, AFQT score and parental education rules out the possibility that coefficient on impatience is capturing some form of human capital. In particular it does not appear reasonable to explain the positive coefficient on impatience with the fact that it captures low level of investment in human capital. First, if this was the case the effect of impatience should disappear when we control for measures of human capital. Second, the definition of the completed spells implies that workers move voluntarily to better jobs, i.e. paying higher wages, for reasons other than those related to firing, layoff etc.

In table 5 I report the coefficient of the Cox model by running the regression on all the measures that proxy impatience. Again, except for the NLS assessment, the coefficients are strongly significant and have positive sign. I follow the same previous procedure: I first run the regression with a small set of controls and then with all the controls. In the first case a two standard deviation increase in the bank account and smoking measures leads to 15 percent and 11 percent increase in the job arrival rate, respectively. All these effects are large and strong even when we control for the size of the firm. Such a robustness check can be done for a small part of completed spells as the NLSY provides information on this point just for some years and for some jobs ("the CPS job"). This robustness check is important because in principle it can be that more impatience workers are sorted in bad jobs, i.e. in jobs that do not offer good opportunities in terms of career, and therefore they search and change jobs more frequently than more patient workers. Presumably the size of the firm is an indicator of the promotion opportunity for a job. The results from this check show still significant and large positive impact of impatience on the job arrival rate.

To sum up, since the model predicts that more impatient workers search more and casual empiricism and empirical evidence show that higher on-the-job search effort leads to higher job arrival rates, it is plausible to conclude that more impatient workers search more. The ideal and final test would be to regress on-the-job search effort on impatience. The NLSY 79 however does not provide information on the activities of employed job seekers in the sample period considered and the information available for few other years are scarce and not sufficient to perform such a regression.

It is worth noting that here opposite results respect to DVP (2005) are obtained regarding exit rates and search effort. DVP (2005) study unemployed workers’ behavior where individuals
face an immediate cost of effort and the delayed reward of employment. In their case, one of the prediction of the model is that more impatient search less and have lower exit rates. In DVP (2005), these results are confirmed by the empirical tests from the NLSY 79. In this paper the focus is on employed workers that face a short-term reward (changing job net of the search cost) and a long-term opportunity cost (renouncing large wage increases on the same job) so that the theoretical results regarding search effort are different from those of DVP (2005). As the model shows, in this case impatience affects positively the exit rate and this result is confirmed by estimation of Cox models from the same data source of DVP (2005).

4.4 Impatience, Collaboration and Wage Increases

The other main conclusion of the theoretical model is that more patient workers collaborate and stay on the job by experiencing wage increases. In this subsection in order to test this conclusion I first consider one of the more important indicator of collaboration that recently has received attention in literature: the absence rate (Flabbi and Ichino, 2001 and Audas, Barmby and Treble, 2004). Absenteeism is assumed to be inversely related to the worker’s output and to her performance and to this extent it can be used as a proxy for low effort (cf. Audas, Barmby and Treble, 2004). A low absence rate is shown to be positively related to the probability of a promotion or wage increase. The empirical works on absence rates, that are primarily methodological, are based on company data sets. In this paper where a large data set that includes a numbers of type of jobs, industries and occupation is used, it is possible to identify the relationship between impatience and absenteeism. However given the nature of the data set used here, it is more problematic to identify the impact of absenteeism and of other collaborative behaviors on the arrival of promotion and of a wage increase. The main goal is therefore to estimate the impact of impatience on the event of absence across individuals. The last step of the empirical analysis, i.e. to check whether more patient workers are stayers and experience wage increases, is deferred at the end of this sub-section.

In the NLSY there is a question on how many hours the respondent was absent at work during the survey week and the answer is reported for the most recent job held by the individual. The model to estimate is

\[ y_{it}^* = X_{it}b + Imp_{i}\gamma + \epsilon_{it}, \]

\[ y_{it} = 1 \text{ if } y_{it}^* > 0. \]

Where \( i = 1, 2, \ldots, n \) refers to individuals and \( t = 1, 2, \ldots, T \) to the time. The independent variable \( y_{it} \) is the dummy equal to one if the worker was absent at least one hour and equal to zero otherwise. The set of controls and the explanatory variable of impatience are denoted by \( X_{it} \) and \( Imp \) where \( b \) and \( \gamma \) are the corresponding coefficients, respectively. I exploit the panel structure of the data to estimate a random effects logit model that accounts for unobserved heterogeneity. The assumption implied by the random effects model is that the

22This sub-section is preliminary and incomplete.
unobserved component is not correlated with the regressors. Note that when we include among the regressors the dummy for occupation and industry, we control for unobserved characteristic that are valued differently across industry and occupation. The results of the logit model with a small set of controls and the large set of controls are reported in table 6. The coefficient on impatience is positive and significant including in the regressions the large set of controls. Most of the other coefficient such as sex, race and education are not significant, whereas many occupation and industries dummy (not reported and available upon request) are strongly significant.

One of the claim of this work is that more patient workers are also stayers and experience wage increases. To check whether this claim pass the empirical test I take into account all the workers that at time \( t \) were on job \( j \) and I create a dummy variable that is equal to one if at time \( t + 1 \) the worker experienced a wage increase of ten percent on job \( j \) and zero otherwise. Notice that information on wage rates in the NLSY are available on yearly basis. Among the observations with zero I include the workers that experienced a job-to-job movement as the one defined above from job \( j \) to another job in the interval \( [t, t+1] \).

The model to estimate is
\[
\omega_{it}^* = X_{it}b + Imp_i\gamma + \epsilon_{it},
\]
\[
\omega_{it} = 1 \text{ if } \omega_{it}^* > 0.
\]

Where \( i = 1, 2, \ldots, n \) refers to individuals and \( t = 1, 2, \ldots, T \) to the time and \( \omega_{it} \) is the dummy equal described above. The set of controls and the explanatory variable of impatience are denoted by \( X_{it} \) Imp where \( b \) and \( \gamma \) are the corresponding coefficients, respectively. Finally the residual, \( \epsilon_{it} = \mu \chi_i + u_{it} \), is equal to the sum of a permanent specific component that can reflect ability or other permanent characteristics and an error term. In particular \( \mu \) is the return of the specific component \( \chi_i \) that is invariant over time. From the model we expect to find coefficient \( \gamma < 0 \). The problem here is that estimates of \( \gamma \) can be biased if we do not take into account the permanent specific component that reflects ability because the covariance between the unobserved component and impatience may differ from zero (presumably, \( \text{cov}(\text{Imp}_i, \chi_i) < 0 \)). Indeed workers that experience more frequently large wage increase can be those that are permanently more productive and this unobservable effect can be picked up by the measure of impatience. As before, in order to solve this problem I exploit the panel structure of the data. By observing individuals over time it is possible to absorb \( \mu \chi_i \) in the equation to estimate. Results from a random-effects logit model are reported in table 7. The coefficient on the aggregate measure of impatience are negative as expected and significant including in the model the small and the large set of controls. The coefficient on age is positive as expected and significant. Males experience wage increases more frequently than women as well as individuals with high levels of education relatively to those with lower levels. The coefficients on impatient are larger (in absolute terms) and significant when the wage increase considered is greater than zero and greater than 5 percent.
5 Conclusion

The goal of this paper is to address theoretically and assess empirically the effect of impatience on workers' on-the-job behavior. Theoretically, workers' hyperbolic time preferences and the implied self-control problems explain several empirical regularities concerning job mobility and account for different on-the-job behaviors. Empirically, the effect of various measures of impatience on the relevant variables confirm the prediction of the model. More patient workers undertake behaviors that lead to promotions, they are more likely to be stayers and to follow fast-track-career paths with the same employer. Impatient workers are more likely to be movers and to experience wage increases by switching jobs. Hence, differences between stayers and movers, which in the literature have so far been attributed to unobservable characteristics, are explained in terms of time preferences. Moreover, an additional explanation for why some workers search and change employers despite the expected long-run return from staying with the current one is far greater than the one from moving is provided. Various measures of impatience are positively correlated to the job arrival rate and negatively correlated to collaborative behaviors that lead to promotion and to large wage increase on the same job. This is the case even when I control for variables that reflect productivity. The econometric results are robust to different estimation procedures. This paper offers some interesting results for the behavioral labor economics approach and the personnel economics literature. It is not only a matter of productivity and productive skills that determines individuals' labor market histories and labor success (promotion, fast-track-career paths) on the same job. This paper shows that time inconsistency and impatience may be important explanations for career and mobility patterns. Finally, the paper offers a contribution to the applied behavioral economics literature as it provides an application with a short-term reward and long-term cost. It is shown that in this case individuals exert an optimal on-the-job search effort that is greater than the one they would exert if they were exponential agents.

References


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Appendix A

Let define $K = \lambda\int_w^{\bar{w}}(w' - w)dF(w') + \beta\delta\lambda\left\{\int_w^{\bar{w}}[V_0(w') - V_0(w)]dF(w') + [V_0(w) - V(w^p)]\right\}$. I introduce the following technical assumptions.

A. 1 $c'(0) < K < c'(1)$.

A. 2 There exists a $\delta$ such that $\delta < \delta \leq 1$.

Derivation of the value function 2. At any period the worker employed at the wage $w$ chooses $s$ to solve:

$$
\max_{s \in [0,1]} -c(s) + \lambda s\int_w^{\bar{w}} w'dF(w') + F(w)w + \lambda(1-s)w + [(1 - \lambda s - \lambda(1-s)]w + + \beta\delta\left\{\lambda s\int_w^{\bar{w}}[V_0(w')]dF(w') + F(w)V_0(w)] + \lambda(1-s)[V_0(w^p)] + [1 - \lambda(1-s) - \lambda s]V_0(w)\right\}.
$$

In the first line there are the immediate costs and the immediate rewards. Namely, the search cost plus the expected return to find a new job. The third term is the probability to be promoted times $w$, because in the current the compensation period does not change if the worker is promoted. The next term is the probability that the worker is neither promoted nor have found a new job times the current wage term $w$. The second line represents the long term rewards. The first term in the second line in the brackets is the probability to find a new job times the lifetime utility to stay in the current job at the current wage, $w$. Rearranging this equation we get the value function 1. The continuation values (3), (4) and (5) of self -1 are obtained with the same procedure. However the difference with respect to the value function (2) is that for self -1 at time 0 the drop in discounting has already occurred so that $\beta$ does not appear in (3), (4) and (5). An interior solution to the problem of the worker is guaranteed by A1.

Lemma 2, Lemma 3

The derivative of the marginal benefit from search respect to the wage is:

$$
-1 + F(w) + \beta\delta[F(w)V_0(w)],
$$

where $V_0(w)|_w$ is the derivative of $V_0(w)$ respect to $w$. The first term $(-1 + F(w))$ is negative. The second term is also negative. Let consider the simple case where the derivative is with respect to the wage only, i.e. case f.o.c for self 0. In this case the second term is $\beta\delta F(w)[1 - F(w)]$. This term has a maximum for $w'$ such that $F(w') = 1/2$. Under bounded discount factors (Assumption A2) even for such $w'$ the expression $-1 + F(w) + \beta\delta F(w)[1 - F(w)]$ has negative sign. Since $V_0(w)|_w < [1 - F(w)]$ and has the same properties of $[1 - F(w)]$, expression (10) has negative sign for any $w \in [w, \bar{w}]$. Lemma 3 derive from standard arguments: as the cost function is convex, an in increase in the RHS of eq. (6) leads to an increase in the search effort.

Proposition 1 The proof derives directly from Lemma 3: from the theorem of implicit function and for $w < w^R$, an increase in $\beta$ result in an increase in the RHS of equation (6) because the term multiplied by $\beta\delta$ for $w < w^R$ is negative. By convexity of the cost function this leads to an increase in the optimal
Proposition 3 This proposition derives from the fact that current self does not agree on the search effort supplied by future self. Let consider the value function (2) in period -1 that is embedded with the optimal search effort and consider a small deviation from the optimal search effort. Formally, let denote the value function (2) of self -1 with $\Gamma$. We have $d\Gamma / ds = -c'(s) + \lambda \int_{w} F(w') dF(w') + \beta \delta \lambda \left\{ \int_{w} (V_{0}(w') - V_{0}(w)) dF(w') + [V_{0}(w) - V_{0}(w')] \right\} + \beta \delta \lambda \partial s V_{0}(w') - V_{0}(w')$. The sum of the first three terms is equal to zero by the f.o.c. (6). However the sum of the last two term is not zero as well. From the perspective of self -1 $\frac{\partial V_{0}(w)}{\partial s} = -c'(s^{i+1}) + \lambda \int_{w} F(w') - (w) dF(w') + \delta \int_{w} (w' - w) dF(w') + (w - w')$, where $s^{i+1}$ is the known (by sophistication) search effort supplied by the next self.

Step 1 From the perspective of self -1, let take into account $\frac{\partial V_{0}(w)}{\partial s}$. Claim 1 $\frac{\partial V_{0}(w)}{\partial s}$ is negative and equal to $\delta (1 - \beta) \int_{w} (w' - w) dF(w') + (w - w')$. Add $-\delta \beta \int_{w} F(w') dF(w') + (w - w')$ and $\delta \beta \int_{w} F(w') dF(w') + (w - w')$ to $-c'(s^{i+1}) + \lambda \int_{w} F(w') dF(w') + \delta \int_{w} F(w') dF(w') + (w - w')$. It follows that $-c'(s^{i+1}) + \lambda \int_{w} F(w') dF(w') + \delta \beta \int_{w} F(w') dF(w') + (w - w') = 0$ because $s^{i+1}$ is the search effort chosen such that this latter f.o.c. equals zero. Therefore $\frac{\partial V_{0}(w)}{\partial s} = \delta (1 - \beta) \int_{w} (w' - w) dF(w') + (w - w')$ and from Assumption 1 in the text it is negative. From the first claim it follows also that $\frac{\partial V_{0}(w)}{\partial s} = \delta (1 - \beta) \int_{w} (w' - w) dF(w') + (w - w')$ and that $\frac{\partial V_{0}(w)}{\partial s} = \delta (1 - \beta) \int_{w} (w' - w) dF(w') + (w - w')$ have all positive sign.

Step 2

Claim 2: $\frac{\partial V_{0}(w)}{\partial s} < \frac{\partial \int_{w} V_{0}(w') dF(w')}{\partial s} < \frac{\partial V_{0}(w)}{\partial s}$. This is immediate and intuitive. It follows that $\beta \delta \lambda \frac{\partial}{\partial s} \int_{w} (V_{0}(w') - V_{0}(w)) dF(w') + \beta \delta \lambda \frac{\partial V_{0}(w') - V_{0}(w)}{\partial s} < 0$ and that $d\Gamma / ds < 0$.

Proposition 4 The proof of this proposition derives from eq. (6) and it is based on the previous proof. Let again focus on the part multiplied by $\beta \delta$. In this part the sophisticated current self cannot control the search effort supplied by future self. However, by sophistication assumption, she knows the level the future self will supply. This is reflected in the continuation values $V_{0}(w)$, $V_{0}(w')$ and $V_{0}(w')$. Let write these continuation value as $V_{0}(w)(s^{i+1})$, $V_{0}(w)(s^{i+1})$ and $V_{0}(w)(s^{i+1})$, that is to say that the continuation values are a function of the search effort of the future self. Recall that for sophisticated $s^{i+1}$ is greater than the one the current self would supply in the future. The naive self believes that $s^{i+1}$ will be exactly the same as she wishes to supply in the future. Therefore the $s^{i+1}$ the naive takes into account for the maximization is lower than the one the sophisticated takes into account. Hence, in order to prove the Proposition is sufficient to show that a higher $s^{i+1}$ implies a higher effort. From the previous proof we showed that a higher search effort implies that the part multiplied by $\beta \delta$ decreases. However since for the relevant range of the wages this part is always negative this implies that the marginal gain from search is increasing in $s^{i+1}$. 

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Appendix B

In this Appendix the problem of the worker analyzed in a more general form. Let $b \in [0, 1]$ the intensity of the collaborative behaviors the worker has to choose and let $s \in [0, 1]$ to be the search effort as in the text. Under Assumption 2, in this case the worker chooses $s$ and $b$ to solve:

\[
w - c(s) - c(b) + \lambda s \int_w^{w'} (w' - w) dF(w') + \beta \delta \left\{ \lambda s \int_w^{w'} [V_0(w')] dF(w') + \lambda b [V_0(w^p)] + [1 - \lambda (b + sF(w))] V_0(w) \right\}.
\]

(11)

The first order conditions for $s$ and $b$ are:

\[
c'(s) = \lambda \int_w^{w'} (w' - w) dF(w') + \beta \delta \lambda \int_w^{w'} [V_0(w') - V_0(w)] dF(w')
\]

(12)

\[
c'(b) = \lambda \beta \delta [V_0(w^p) - V_0(w)]
\]

(13)

Under Assumption 1, a lower $\beta$ implies a greater $s$. Indeed a decreases $\beta$ implies a reduction in both the marginal revenues from searching and collaborating. However, such a reduction is greater for the marginal revenue from collaborating and therefore the worker prefers to substitute an additional unit of $b$ with an additional unit of $s$. This result holds also in the case in which $c'(s) < c'(b)$.

Relaxing Assumption 2

We allow for another modification if we impose that worker maximizes his utility under the constraint $1 - s - b \geq 0$ where 1 is the unit endowment of time. Moreover we add utility from working but neither searching nor collaborating. Let $z$ denote the value from neither searching nor collaborating, then $z[1 - s - b]$ is the utility the worker enjoys from this sort of activity. The objective function is:

\[
w + z[1 - b - s] - c(s) - c(b) + \lambda s \int_w^{w'} (w' - w) dF(w') + \beta \delta \left\{ \lambda s \int_w^{w'} [V_0(w')] dF(w') + \lambda b [V_0(w^p)] + [1 - \lambda (b + sF(w))] V_0(w) \right\}
\]

(14)

Let formulate the Lagrangian for this problem:

\[
w + (-z - \theta_1)[c + s - 1] - \theta_2 s - \theta_3 b - c(s) - c(c) + \lambda s \int_w^{w'} (w' - w) dF(w') + \beta \delta \left\{ \lambda s \int_w^{w'} [V_0(w')] dF(w') + \lambda b [V_0(w^p)] + [1 - \lambda (b + sF(w))] V_0(w) \right\}
\]

(15)

Note that the Kuhn Tucker conditions are necessary and sufficient for a solution as the constraint is convex and the value function is concave:

\[
z + c'(s) = \lambda \int_w^{w'} (w' - w) dF(w') + \beta \delta \lambda \int_w^{w'} [V_0(w') - V_0(w)] dF(w') - \theta_1 - \theta_2
\]

(16)

\[
z + c'(b) = \lambda \beta \delta [V_0(w^p) - V_0(w)] - \theta_1 - \theta_3
\]

(17)

with $s + b \leq 1$, $s \geq 0$, $b \geq 0$, $\theta_i > 0$ for $i = 1, 2, 3$. Formally taking into account the previous result, I want to show that the optimal solution such that $1 - s - b > 0$ is never satisfied, i.e. the optimal
In this case we have

Case 1

This is the extreme case where the worker neither search nor collaborate, i.e. \( s = 0 \) and \( b = 0 \). In this case we have \( \theta_1 = 0, \theta_2 > 0, \) and \( \theta_3 > 0 \). Note that in this case from (16) and (17) we have that:

\[
z + c'(0) < \lambda \int_w^\infty (w' - w)dF(w') + \beta \delta \lambda \int_w^\infty [V_0(w') - V_0(w)]dF(w'),
\]

\[
z + c'(0) < \lambda \beta \delta [V_0(w^b) - V_0(w)],
\]

from which we have that a substitution in \( z \) for \( s \) and \( b \) is profitable that contradicts case 1) to be optimal. To be optimal Case 1) it is necessary to have \( \theta_1 < 0 \) that contradicts complementary slackness conditions. Hence, Case 1 must cannot be a candidate.

Case 2 and Case 3

The same reasoning for Case 1 rules out Case 2 and Case 3.

Case 4

This is the where the solution is interior: \( \theta_1 = 0, \theta_2 = 0, \) and \( \theta_3 = 0 \). Let denote such a solution as \([s^*, b^*]\). In order to show that exists another solution \([s^{**}, b^{**}]\) such that \( s^{**} + b^{**} = 1 \) and that is associated to a higher value function. It is immediate to see that \([s^{**}, b^{**}]\) is an optimal solution when conditions (18) and (19) are satisfied for all the \( b \in [0,1] \) and \( s \in [0,1] \). Let discuss these conditions more in detail. Let assume the standard assumption according to which an unemployed worker receives job offers according to the job arrival rate \( \lambda s \) where \( \lambda \) and \( s \) have the same meaning of the basic model analyze in this paper. In this case employment implies that the wage she earns is preferred to the unemployment benefit. Denoting such a benefit as \( u \) we have \( w > u \) if the the job arrival rate for unemployed and employed workers is the same (cf. Mortensen, 2003). Such a value \( u \) is less than \( z \) because \( u \) refers to unemployment benefit, leisure and more in general the monetary value of not working. Comparing unemployed and employed workers, the search effort for unemployed workers, as well as the marginal gain from search, is greater employed. Simple calibration shows that condition (18) and (19) are satisfied for all the \( b \in [0,1] \) and \( s \in [0,1] \) under reasonable values of \( z \).

Probability of separation

In this framework the possibility of separation leading to unemployment is considered. It is reasonable to assume that a lower level of collaboration, \( b \), increases the probability of a separation. Let \( u \) and \( U_0 \) the unemployment benefit and the continuation payoff from unemployment for self -1 at time zero, respectively. Moreover let \( \chi(1 - b) \) the probability of a separation. Then the objective function (14) is modified as follows:

\[
w + z[1 - b - s] - c(s) - c(b) + \chi(1 - b)(u - w) + \lambda s \int_w^\infty (w' - w)dF(w')
\]

\[
+ \beta \delta \left\{ \lambda s \int_w^\infty [V_0(w')]dF(w') + \lambda b[V_0(w^b)] + \chi(1 - b)U_0 + [1 - \lambda(b + sF(w))] - \chi(1 - b)V_0(w) \right\}.
\]

The corresponding Kuhn Tucker conditions are:

\[
z + c'(s) = \lambda \int_w^\infty (w' - w)dF(w') + \beta \delta \lambda \int_w^\infty [V_0(w') - V_0(w)]dF(w') - \theta_1 - \theta_2,
\]

32
\[ z + c'(b) = \chi(u - w) + \beta \delta \left[ \lambda (V_0(w^p) - V_0(w)) + \chi (V_0(w) - U_0) \right] - \theta_1 - \theta_3. \] (22)

The case where \( s = 0 \) and \( b = 0 \) are ruled out for the same reasons of Case 1 above whereas corner solution such as \( b = 0 \) and \( 0 < s < 1 \) or \( s = 0 \) and \( 0 < b < 1 \) are ruled out for the same reasons of Case 2 and 3 above. Let analyze the case of an interior solution, i.e. \( \theta_1 = 0, \theta_2 = 0, \) and \( \theta_3 = 0. \) In this case the optimal solution \([s^*, b^*]\) solve the following equation, respectively:

\[ z + c'(s) = \lambda \int_w^w (w' - w) dF(w') + \beta \delta \lambda \left[ \int_w^w [V_0'(w') - V_0(w)] dF(w') \right], \] (23)

\[ z + c'(b) = \chi(u - w) + \beta \delta \left[ \lambda (V_0(w^p) - V_0(w)) + \chi (V_0(w) - U_0) \right]. \] (24)

From (22) and (23) we get:

\[ c'(s) - c'(b) = \lambda \int_w^w (w' - w) dF(w') + \beta \delta \lambda \left[ \int_w^w [V_0'(w') - V_0(w)] dF(w') \right] - \chi(u - w) - \beta \delta \left[ \lambda (V_0(w^p) - V_0(w)) + \chi (V_0(w) - U_0) \right] \] (25)

When the RHS of this equation is equal to zero we have \( s = c. \) Now a reduction in \( \beta \) implies a increase in the RHS of (25) and for an interior solution an increase in the \( s/b. \) However if we want a result in line with the previous ones we have to ruled out the interior solution and to look at the conditions under which \( s + b = 1. \) In this case \( \theta_1 \geq 0 \) and a reduction in \( \beta \) implies an increase in \( s \) as well as in \( s/b. \) It is easy to see that the conditions under which the optimal solution is such that \( s + b = 1 \) are:

\[ z + c'(s) < \lambda \int_w^w (w' - w) dF(w') + \beta \delta \lambda \left[ \int_w^w [V_0'(w') - V_0(w)] dF(w') \right] \] (26)

\[ z + c'(b) < \chi(u - w) + \beta \delta \left[ \lambda (V_0(w^p) - V_0(w)) + \chi (V_0(w) - U_0) \right], \] (27)

for all \( b \in [0, 1] \) and \( s \in [0, 1]. \) Therefore under (25) and (27) we would observe that more impatience workers are more likely to be movers not only in the sense that they move to other jobs but also that they get separated for low collaboration.
Table 1: Summary Statistics on Job-to-Job Movements

<p>| | |</p>
<table>
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<tr>
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<tr>
<td>Number of spells</td>
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<tr>
<td>Number of completed spells</td>
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<td>Median</td>
<td>49</td>
</tr>
<tr>
<td>Duration 75th percentile</td>
<td>116</td>
</tr>
</tbody>
</table>

**Spells by individuals:**
- with one completed spell: 2677, 34.5
- with two completed spells: 938, 12.1
- with three completed spells: 323, 4.1
- with four completed spells: 69, 0.8
- with five completed spells: 23, 0.3
- with six completed spells: 4, 0.05
- with seven completed spells: 1, 0.01

* The mean refers only to completed spells. The completed spells reported in this table do not contain job separation due to layoff, plant closed, end of temporary/seasonal job, discharged of fired, program ended, quit for pregnancy/family reasons.

Tab. 2: Factor Analysis for the Aggregate measure of impatience

<table>
<thead>
<tr>
<th></th>
<th>Factor Loadings</th>
<th>Uniqueness</th>
<th>Score coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcohol</td>
<td>0.3520</td>
<td>0.8286</td>
<td>0.2301</td>
</tr>
<tr>
<td>Drug Use</td>
<td>0.4264</td>
<td>0.7221</td>
<td>0.3200</td>
</tr>
<tr>
<td>NLS Assessment</td>
<td>0.0388</td>
<td>0.9760</td>
<td>0.0215</td>
</tr>
<tr>
<td>Bank Account</td>
<td>0.3983</td>
<td>0.6827</td>
<td>0.3161</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>0.2545</td>
<td>0.7993</td>
<td>0.1795</td>
</tr>
<tr>
<td>Smoking</td>
<td>0.3329</td>
<td>0.8571</td>
<td>0.2104</td>
</tr>
</tbody>
</table>

Tab. 3: First evidence

<table>
<thead>
<tr>
<th></th>
<th>Individual with at least one spell</th>
<th>Individual with at least two spells</th>
<th>Individual with at least three spells</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean of standard adjusted measure</td>
<td>Mean of standard adjusted measure</td>
<td>Mean of standard adjusted measure</td>
</tr>
<tr>
<td>Alcohol</td>
<td>0.0469(1.0704)</td>
<td>0.1184(1.1669)</td>
<td>0.0745(1.1114)</td>
</tr>
<tr>
<td>Drug Use</td>
<td>0.1775(1.1404)</td>
<td>0.2564(1.1894)</td>
<td>0.3136(1.2236)</td>
</tr>
<tr>
<td>NLS Assessment</td>
<td>0.0099(0.7580)</td>
<td>-0.058(0.2385)</td>
<td>0.006(0.3934)</td>
</tr>
<tr>
<td>Bank Account</td>
<td>0.0434(1.0053)</td>
<td>0.0367(0.8763)</td>
<td>0.0604(1.008)</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>-0.0342(0.7890)</td>
<td>0.010(0.8669)</td>
<td>0.4556(1.1865)</td>
</tr>
<tr>
<td>Smoking</td>
<td>0.0472(1.006)</td>
<td>0.0974(1.011)</td>
<td>0.1750(1.0145)</td>
</tr>
</tbody>
</table>
### Tab. 4: Exit Rate Regressions

<table>
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<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Impatience</td>
<td>0.1343**</td>
<td>0.0262</td>
<td>0.1148**</td>
<td>0.0297</td>
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<tr>
<td>Age</td>
<td>-0.1645**</td>
<td>0.099</td>
<td>-0.1877**</td>
<td>0.0099</td>
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<td>Wage</td>
<td>-0.0134**</td>
<td>0.0000</td>
<td>-0.0015**</td>
<td>0.0001</td>
</tr>
<tr>
<td>Sex Dummy</td>
<td>0.2137**</td>
<td>0.0034</td>
<td>0.2041</td>
<td>0.0374</td>
</tr>
<tr>
<td>Race Dummy</td>
<td>0.1171**</td>
<td>0.0333</td>
<td>0.0094</td>
<td>0.0414</td>
</tr>
<tr>
<td>Edu0 Dummy 1-4th grade</td>
<td>omitted</td>
<td>-</td>
<td>omitted</td>
<td>-</td>
</tr>
<tr>
<td>Edu1 Dummy 5-8th grade</td>
<td>-0.0192</td>
<td>0.2231</td>
<td>0.1630</td>
<td>0.2620</td>
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<td>Edu2 Dummy 9-13th grade</td>
<td>-0.0869</td>
<td>0.0593</td>
<td>-0.0741</td>
<td>0.0708</td>
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<tr>
<td>Edu3 Dummy 14-17th grade</td>
<td>0.1183*</td>
<td>0.0671</td>
<td>0.0994</td>
<td>0.0734</td>
</tr>
<tr>
<td>Edu4 Dummy 18-20th grade</td>
<td>0.3755</td>
<td>0.1091</td>
<td>0.3230**</td>
<td>0.1067</td>
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<td>AFQT score</td>
<td>-</td>
<td>-</td>
<td>0.0057**</td>
<td>0.0008</td>
</tr>
<tr>
<td>Fathereduc</td>
<td>-</td>
<td>-</td>
<td>0.0019</td>
<td>0.0059</td>
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<tr>
<td>Mothereduc</td>
<td>-</td>
<td>-</td>
<td>0.0098</td>
<td>0.0769</td>
</tr>
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<td>Marital Status</td>
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<td>0.0278</td>
<td>0.0385</td>
</tr>
<tr>
<td>Region: South</td>
<td>-</td>
<td>-</td>
<td>omitted</td>
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</tr>
<tr>
<td>Region: NorthEast</td>
<td>-</td>
<td>-</td>
<td>0.0702*</td>
<td>0.0464</td>
</tr>
<tr>
<td>Region: NorthCen</td>
<td>-</td>
<td>-</td>
<td>-0.1035**</td>
<td>0.0059</td>
</tr>
<tr>
<td>Region: West</td>
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<td>-</td>
<td>0.0985**</td>
<td>0.0483</td>
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<tr>
<td>Dummy Occupation-Professional</td>
<td>-</td>
<td>-</td>
<td>omitted</td>
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<tr>
<td>Dummy Occupation-Manager</td>
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<td>-</td>
<td>-0.2164**</td>
<td>0.0688</td>
</tr>
<tr>
<td>Dummy Occupation-Saleworker</td>
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<td>-</td>
<td>0.2165**</td>
<td>0.0821</td>
</tr>
<tr>
<td>Dummy Occupation-Clerical</td>
<td>-</td>
<td>-</td>
<td>-0.0111</td>
<td>0.0623</td>
</tr>
<tr>
<td>Dummy Occupation-Craftsmen</td>
<td>-</td>
<td>-</td>
<td>-0.1559**</td>
<td>0.0759</td>
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<tr>
<td>Dummy Occupation-Operatives</td>
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<td>-</td>
<td>0.0251</td>
<td>0.0738</td>
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<tr>
<td>Dummy Occupation-Laborers</td>
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<td>-</td>
<td>0.0320</td>
<td>0.0841</td>
</tr>
<tr>
<td>Dummy Occupation-Farmers</td>
<td>-</td>
<td>-</td>
<td>0.7693*</td>
<td>0.4216</td>
</tr>
<tr>
<td>Dummy Occupation-Service</td>
<td>-</td>
<td>-</td>
<td>-0.1204**</td>
<td>0.06882</td>
</tr>
<tr>
<td>Dummy Industry-Agriculture</td>
<td>-</td>
<td>-</td>
<td>omitted</td>
<td>-</td>
</tr>
<tr>
<td>Dummy Industry-Private</td>
<td>-</td>
<td>-</td>
<td>0.0324</td>
<td>0.1890</td>
</tr>
<tr>
<td>Dummy Industry-Mining</td>
<td>-</td>
<td>-</td>
<td>0.3361</td>
<td>0.2171</td>
</tr>
<tr>
<td>Dummy Industry-Construction</td>
<td>-</td>
<td>-</td>
<td>0.5158**</td>
<td>0.1307</td>
</tr>
<tr>
<td>Dummy Industry-Manufacturers</td>
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<td>-</td>
<td>0.1411</td>
<td>0.1205</td>
</tr>
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<td>Dummy Industry-Transports</td>
<td>-</td>
<td>-</td>
<td>0.2898*</td>
<td>0.1290</td>
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<tr>
<td>Dummy Industry-Wholesale Trade</td>
<td>-</td>
<td>-</td>
<td>0.3471**</td>
<td>0.1185</td>
</tr>
<tr>
<td>Dummy Industry-Finance</td>
<td>-</td>
<td>-</td>
<td>0.1964*</td>
<td>0.1099</td>
</tr>
<tr>
<td>Dummy Industry-Business Services</td>
<td>-</td>
<td>-</td>
<td>0.5490**</td>
<td>0.1257</td>
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<tr>
<td>Dummy Industry-Personal Services</td>
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<td>-</td>
<td>0.1711</td>
<td>0.1356</td>
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<tr>
<td>Dummy Industry-Entertainment</td>
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<td>-</td>
<td>0.2395</td>
<td>0.1652</td>
</tr>
<tr>
<td>Dummy Industry-Professional Services</td>
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<td>-</td>
<td>0.1140</td>
<td>0.1212</td>
</tr>
<tr>
<td>Dummy Industry-Public Adm.</td>
<td>-</td>
<td>-</td>
<td>-0.3039**</td>
<td>0.1417</td>
</tr>
</tbody>
</table>

All the entries in first and the third columns represent coefficients on the variables from single Cox proportional hazards models. The model includes five dummies indicating that the following variable have missing value: AFQT score, occupation, industry, father education , mother education.

*: Significantly different from 0 at the 0.1 level.**: Significantly different from 0 at the 0.05 level.

Number of Observation: 12451 - 11976 -
Tab. 5: Exit rates: regression with all the measures of impatience

<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Alcohol</td>
<td>0.005</td>
<td>0.171</td>
<td>0.0045</td>
<td>0.0134</td>
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<tr>
<td>Drug Use</td>
<td>0.0548*</td>
<td>0.0165</td>
<td>0.0833*</td>
<td>0.0144</td>
</tr>
<tr>
<td>NLS Assessment</td>
<td>-0.0348</td>
<td>0.0252</td>
<td>-0.033</td>
<td>0.0220</td>
</tr>
<tr>
<td>Bank Account</td>
<td>0.0792*</td>
<td>0.0203</td>
<td>0.0591*</td>
<td>0.0189</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>0.0728*</td>
<td>0.0275</td>
<td>0.0583*</td>
<td>0.0235</td>
</tr>
<tr>
<td>Smoking</td>
<td>0.0584*</td>
<td>0.0179</td>
<td>0.0637*</td>
<td>0.0157</td>
</tr>
</tbody>
</table>

All the entries in first and the third columns represent coefficients on the variables from single Cox proportional hazards models. The model includes five dummies indicating that the following variable have missing value: AFQT score, occupation, industry, father education, mother education. *: Significantly different from 0 at the 0.1 level. **: Significantly different from 0 at the 0.05 level.

Tab. 6. Impatience and Absenteeism

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Impatience</td>
<td>-0.0033</td>
<td>0.0263</td>
<td>-0.0061</td>
<td>0.040</td>
</tr>
<tr>
<td>Age</td>
<td>-0.0029</td>
<td>0.0120</td>
<td>-0.0037</td>
<td>0.0279</td>
</tr>
<tr>
<td>Wage</td>
<td>-0.0037</td>
<td>0.0104</td>
<td>0.0041</td>
<td>0.0258</td>
</tr>
<tr>
<td>Sex Dummy</td>
<td>0.0064</td>
<td>0.0235</td>
<td>0.0129</td>
<td>0.0818</td>
</tr>
<tr>
<td>Race Dummy</td>
<td>0.0064</td>
<td>0.0235</td>
<td>0.0129</td>
<td>0.0818</td>
</tr>
<tr>
<td>Edu0 Dummy 1-4th grade</td>
<td>omitted</td>
<td>-</td>
<td>omitted</td>
<td>-</td>
</tr>
<tr>
<td>Edu1 Dummy 5-8th grade</td>
<td>-0.0042</td>
<td>0.0535</td>
<td>0.0633</td>
<td>0.0921</td>
</tr>
<tr>
<td>Edu2 Dummy 9-13th grade</td>
<td>0.0374</td>
<td>0.0893</td>
<td>0.0211</td>
<td>0.0808</td>
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<tr>
<td>Edu3 Dummy 14-17th grade</td>
<td>0.0203</td>
<td>0.1270</td>
<td>0.0544</td>
<td>0.0280</td>
</tr>
<tr>
<td>Edu4 Dummy 18-20th grade</td>
<td>0.5521</td>
<td>0.1091</td>
<td>0.0271</td>
<td>0.0167</td>
</tr>
</tbody>
</table>

All the entries in first and the third columns represent coefficients on the variables from random-effects logit model. The entries in the first and the third columns refer to the model estimated with a small and a large set of coefficients, respectively. The dependent variable is equal to one if the worker was absent at work at least one time during the survey week and zero otherwise. The model includes five dummies indicating that the following variable have missing value: AFQT score, occupation, industry, father education, mother education. *: Significantly different from 0 at the 0.1 level. **: Significantly different from 0 at the 0.05 level.

Tab. 7. Wage increases: Results from Random-Effect Logit Model

<table>
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<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Impatience</td>
<td>-0.1073**</td>
<td>0.0044</td>
<td>-0.1332**</td>
<td>0.0954</td>
</tr>
<tr>
<td>Age</td>
<td>0.0076**</td>
<td>0.0011</td>
<td>0.0087**</td>
<td>0.0038</td>
</tr>
<tr>
<td>Wage</td>
<td>-0.0005</td>
<td>0.0023</td>
<td>-0.0036</td>
<td>0.0213</td>
</tr>
<tr>
<td>Sex Dummy</td>
<td>0.2122**</td>
<td>0.0221</td>
<td>0.2041**</td>
<td>0.0320</td>
</tr>
<tr>
<td>Race Dummy</td>
<td>0.0030</td>
<td>0.0261</td>
<td>0.0037</td>
<td>0.0472</td>
</tr>
<tr>
<td>Edu0 Dummy 1-4th grade</td>
<td>omitted</td>
<td>-</td>
<td>omitted</td>
<td>-</td>
</tr>
<tr>
<td>Edu1 Dummy 5-8th grade</td>
<td>-0.1426</td>
<td>0.1488</td>
<td>-0.1286</td>
<td>0.1624</td>
</tr>
<tr>
<td>Edu2 Dummy 9-13th grade</td>
<td>-0.0196</td>
<td>0.0435</td>
<td>-0.0041</td>
<td>0.0206</td>
</tr>
<tr>
<td>Edu3 Dummy 14-17th grade</td>
<td>0.1395**</td>
<td>0.0456</td>
<td>0.1139**</td>
<td>0.0534</td>
</tr>
<tr>
<td>Edu4 Dummy 18-20th grade</td>
<td>0.1864**</td>
<td>0.0624</td>
<td>0.2120**</td>
<td>0.0434</td>
</tr>
</tbody>
</table>

All the entries in first and the third columns represent coefficients on the variables from random-effects logit model. The entries in the first and the third columns refer to the model estimated with a small and a large set of coefficients, respectively. The dependent variable is equal to one if the worker has experienced a ten percent wage increase and zero otherwise. The model includes five dummies indicating that the following variable have missing value: AFQT score, occupation, industry, father education, mother education. *: Significantly different from 0 at the 0.1 level. **: Significantly different from 0 at the 0.05 level.