

Discount Rates and Employment Fluctuations

Katarina Borovickova
(NYU)

Jarda Borovička
(NYU)

Abstract:

We study the role of fluctuations in discount rates for the joint dynamics of expected returns in the stock market and employment dynamics. We construct a stochastic discount factor with a time-varying compensation for risk, and analyze the pricing of cash flows earned by stock market investors and firms hiring workers. Decomposition of the value of a job to the firm into its stochastic components and cash flows earned at alternative maturities yields insights for the understanding of firms' incentives to hire workers in frictional labor markets.