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On the importance of the dual labour market for a country within a monetary union¹

The paper investigates whether differences in the popularity of fixed-term contracts on the labour market can be a source of divergent dynamics of unemployment among European Monetary Union economies. For that purpose we construct a database of labor market institutions for a group of eleven euro area countries and years 1995-2013 to conduct a series of dynamic panel regressions. We find a robust and significant impact of duality on unemployment dynamics: high duality rate amplifies its responsiveness to output shocks and lowers its persistence. The heterogeneous unemployment developments, in turn, are a challenge for the conduct of common monetary policy. We conclude that improved stability at both the euro area and country level may be obtained by a coordinated shift to 'single-contract' that closes the disproportion between temporary and regular contracts.

Keywords: Dual labour market, monetary union, panel data.

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