

Department of Economics
2025-2026
Seminar Series



Monday, October 27, 2025
SBS, Room N603

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Employment Relationships, Wage Setting, and Labor Market Power

Abstract: We ask to what extent the quantification of labor market power depends on the modeling of the long-term worker-firm employment relationship. We develop an oligopsony model with dynamic wage contracts. Workers decide whether and where to work, choosing among firms providing different amenities and solving a dynamic discrete choice labor supply problem with firm-specific human capital. As a result, firms optimally choose wage-tenure contracts to attract and retain workers. We find that such contracts mitigate firms' incentives to impose large instantaneous wage markdowns—compared to standard static wage-setting models—thereby reducing the share of socially inefficient worker-firm separations. As a consequence, we show that the empirical approaches based on "sufficient statistics" tend to overestimate the extent of labor market power: low levels of firm-specific labor supply elasticities do not necessarily indicate rent extraction but instead reflect firms' ability to retain workers by offering long-term value through human capital accumulation.

All in-person seminars will be held in the Social and Behavioral Sciences Building, Room N603. For additional information, contact the seminar organizers: Profs. Jonathan Becker and Lorenz Ekerdt. Visit our webpage for additional information: stonybrook.edu/economics.

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