

Abstract: This paper explores the quantitative impact on welfare of different parametric assumptions about bargaining power in a standard search and matching model of the labor market. The literature tends to focus on volatility in the labor market and often assumes that bargaining power is chosen in a way that attains the social optimum. This study computes the welfare loss if social efficiency is not attained and finds that, for a broad range of bargaining power, the welfare loss is less than 1% of the social optimum. This paper also investigates which aspects of the parameterization are important for welfare consequences.