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IMPROVING JOB SEEKERS' DECISION-MAKING MECHANISMS IN THE LABOR MARKET BASED ON BEHAVIORAL ECONOMICS

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ABSTRACT. This article investigates the role of behavioral economics in improving job seekers' decision-making mechanisms in the labor market. Traditional labor market theories assume that individuals make employment decisions by rationally comparing expected wages, working conditions, employment opportunities, and job-search costs. However, actual labor market behavior is also influenced by psychological biases, risk preferences, social expectations, and information asymmetry. The objective of this study is to identify the principal behavioral determinants affecting employment decisions and propose an institutional framework for improving job-search efficiency through behavioral interventions and recruitment agencies. The research applies theoretical analysis, comparative assessment, systematic classification, and conceptual modeling. Particular attention is paid to loss aversion, present bias, reference-dependent preferences, overconfidence, and trust in labor market intermediaries. The article argues that integrating behavioral insights into employment services may improve information transparency, support realistic wage expectations, and facilitate better matching between job seekers and employers. A conceptual mechanism connecting behavioral factors, recruitment services, and employment outcomes is proposed. The study concludes that behavioral approaches can complement traditional labor market policies and contribute to the development of more inclusive and efficient employment institutions.

Keywords: Behavioral economics, labor market, employment, job seekers, decision-making, recruitment agencies, information asymmetry, behavioral biases, job matching, institutional development.

INTRODUCTION

Ensuring productive employment and improving labor market efficiency are important priorities of modern economic development. Effective labor market institutions contribute to the allocation of human resources, the reduction of unemployment, and the improvement of economic productivity.

Traditional labor economics generally explains individual employment decisions through expected wages, job-search costs, employment probabilities, and the availability of information.

According to the conventional job-search framework, individuals compare employment opportunities and accept a job offer when its expected benefits satisfy their reservation wage and other relevant employment preferences.

However, labor market decisions are not determined exclusively by objective economic conditions. Individuals may reject attractive employment opportunities because of uncertainty, underestimate their professional abilities, postpone job applications, or maintain unrealistic wage expectations.

Such behavior indicates that psychological factors can influence labor market outcomes.

Behavioral economics provides an analytical framework for understanding these decisions. By integrating psychology into economic analysis, this approach considers the influence of cognitive limitations, emotional responses, reference points, and behavioral biases on individual choices.

The relevance of behavioral economics has increased with the expansion of digital recruitment platforms and online employment services. Although digital technologies can improve access to vacancies, information overload and complex application procedures may create new behavioral barriers.

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Recruitment agencies can play an important role in addressing these challenges. By providing employment information, screening candidates, offering professional guidance, and connecting workers with employers, recruitment agencies may contribute to more efficient labor market matching.

The objective of this research is to examine how behavioral economics can contribute to improving job seekers' decisions and to develop a conceptual institutional mechanism linking behavioral interventions with recruitment services.

LITERATURE REVIEW

The theoretical foundation of labor market decision-making is associated with job-search theory and the economics of information.

Stigler (1962) examined the importance of information in labor markets and demonstrated the economic relevance of searching for employment opportunities.

McCall (1970) developed a fundamental model of job search under uncertainty, explaining how individuals evaluate wage offers and determine whether to continue searching or accept employment.

Behavioral economics extends these models by incorporating psychological characteristics and systematic deviations from conventional rationality assumptions.

Kahneman and Tversky (1979) introduced prospect theory, which emphasizes the importance of reference points and asymmetric responses to gains and losses.

In the labor market, workers may compare prospective earnings with wages received in previous employment. As a result, past income can affect their willingness to accept new job opportunities.

DellaVigna and Paserman (2005) examined the relationship between impatience and job-search behavior. Their findings indicate that impatience is associated with lower search effort and reduced exit rates from unemployment.

Krueger and Mueller (2016) investigated reservation wages and found evidence suggesting that some unemployed workers maintain wage expectations that decline relatively slowly during unemployment.

Research on reference-dependent job search also indicates that previous income and adaptation to changing economic circumstances may influence job-search intensity and employment decisions.

These contributions suggest that psychological characteristics should be considered alongside wages, information availability, and institutional factors when developing employment policies.

Nevertheless, the practical integration of behavioral insights into recruitment agency activities and employment services requires further conceptual and empirical investigation.

RESEARCH METHODOLOGY

The study employs a qualitative analytical methodology based on established labor economics and behavioral economics literature.

The research methodology consists of four complementary approaches.

Theoretical analysis is used to examine the behavioral foundations of employment-related decisions and identify the limitations of conventional rational job-search models.

Comparative analysis is applied to distinguish traditional labor market mechanisms from behavioral interpretations of job-search activity.

Systematic classification is used to identify behavioral barriers affecting employment decisions and corresponding institutional interventions.

Conceptual modeling is employed to develop a framework illustrating how recruitment agencies and behavioral interventions may influence job-search outcomes.

The study does not claim to have conducted original econometric estimation, interviews, or labor market experiments. The proposed mechanisms therefore represent research propositions requiring subsequent empirical validation.

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RESULTS AND DISCUSSION

Behavioral Factors Influencing Job Seekers

Employment decisions are influenced by economic opportunities as well as psychological perceptions and expectations.

Loss aversion and fear of employment change

Individuals frequently perceive potential losses more strongly than equivalent gains.

For example, an employed individual may reject a higher-paying job because of uncertainty about the new employer, potential probationary risks, or the possibility of losing familiar working conditions.

Although changing jobs may provide economic benefits, perceived risks can discourage mobility.

Present bias and job-search procrastination

Job-search activities require immediate effort, while the potential benefits of employment may emerge in the future.

Individuals may postpone preparing a résumé, attending interviews, or completing professional training even when these activities could improve their employment prospects.

Such behavior is consistent with present-biased preferences.

Anchoring and reservation wages

Job seekers may evaluate future salary offers using their previous wages or initial salary expectations as reference points.

For example, a worker who previously earned a relatively high salary may reject available offers despite changed labor market conditions.

This does not necessarily imply irrational behavior, since reservation wages may also reflect household needs, commuting costs, and other objective constraints. However, behavioral anchoring can contribute to persistent expectations.

Overconfidence and self-assessment

Overconfidence may lead individuals to overestimate their qualifications or likelihood of receiving a particular job offer.

Conversely, underconfidence may prevent qualified candidates from applying for suitable positions.

Both mechanisms can influence the quality and distribution of job applications.

Trust and information asymmetry

Job seekers often possess incomplete information about employers, job requirements, actual working conditions, and career prospects.

Employers, in turn, may lack reliable information about applicants' competencies, productivity, and professional motivation.

This information asymmetry creates uncertainty and can increase transaction costs.

Recruitment agencies may reduce these difficulties by verifying information, assessing qualifications, and improving communication between the participants.

Classification of Behavioral Barriers and Institutional Solutions

Behavioral factor	Labor market problem	Potential institutional intervention
Loss aversion	Reluctance to change employment	Clear communication of job conditions and risks
Present bias	Delayed applications and low search effort	Reminders, application planning, and follow-up support
Anchoring	Inflexible salary expectations	Reliable wage information and career counseling
Overconfidence	Mismatch between skills and	Objective skills assessment

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	vacancies	
Underconfidence	Failure to apply for suitable jobs	Personalized encouragement and guidance
Information asymmetry	Uncertainty about employers and candidates	Verified vacancy information and recruitment services
Limited attention	Missed vacancies and deadlines	Targeted notifications and simplified application procedures

Source: Author's conceptual synthesis based on behavioral and labor market theories.

The classification demonstrates that psychological barriers can be addressed through targeted institutional mechanisms.

Employment services should therefore not be limited to vacancy publication and candidate registration. They can also provide decision-support mechanisms that account for the behavioral characteristics of job seekers.

The Role of Recruitment Agencies in Behavioral Labor Market Mechanisms

Recruitment agencies operate as intermediaries between employers and potential employees. Their primary functions include identifying employment needs, searching for candidates, evaluating qualifications, and facilitating job placement.

From a behavioral economics perspective, recruitment agencies may perform additional functions.

First, they can reduce uncertainty by providing reliable information about job requirements, remuneration, and employment conditions.

Second, they can support realistic expectations through market-based salary information and professional consultations.

Third, personalized employment recommendations can reduce information overload and help individuals identify opportunities that match their qualifications.

Fourth, systematic reminders and application-support services may encourage individuals to complete job-search tasks on time.

Fifth, professional assessments may help job seekers evaluate their competencies more objectively.

These activities can contribute to the reduction of information asymmetry and transaction costs.

Nevertheless, recruitment agencies may also create risks when their incentives are not aligned with the interests of job seekers. Transparency, accountability, personal data protection, and fair recruitment practices are therefore necessary components of an effective institutional framework.

Proposed Institutional Mechanism for Improving Employment Decisions

The study proposes a behavioral-institutional mechanism consisting of five interconnected stages.

Stage 1. Behavioral diagnostics

Employment service providers identify relevant barriers, including unrealistic wage expectations, low job-search motivation, uncertainty, and limited information.

Stage 2. Information support

Recruitment agencies provide verified vacancy information, salary ranges, qualification requirements, and working-condition descriptions.

Stage 3. Behavioral interventions

Personalized recommendations, application reminders, career counseling, and simplified recruitment procedures are introduced to support decision-making.

Stage 4. Labor market matching

Job seekers are connected with suitable employers based on professional competencies, employment preferences, and objective job requirements.

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Stage 5. Monitoring and evaluation

Employment outcomes are evaluated using measurable indicators, such as job-search duration, placement rates, job retention, and job satisfaction.

The proposed relationship can be summarized as:

Behavioral Diagnostics → Information Support → Behavioral Intervention → Job Matching → Employment Outcomes

This framework emphasizes that improving job-search efficiency requires coordination between individual behavior and labor market institutions.

Conceptual Econometric Framework

To evaluate the relationships between behavioral characteristics and employment outcomes, the following econometric specification is proposed for future research:

$$EP_i = \beta_0 + \beta_1 RE_i + \beta_2 IS_i + \beta_3 LA_i + \beta_4 PB_i + \beta_5 SK_i + \beta_6 TR_i + \varepsilon_i$$

Where:

- EP — probability of employment;
- RE — use of recruitment agency services;
- IS — access to labor market information;
- LA — loss aversion;
- PB — present bias;
- SK — professional skills and qualifications;
- TR — trust in employment intermediaries;
- β_0 — constant parameter;
- β_1–β_6 — regression coefficients;
- ε — error term.

For empirical implementation, the dependent variable could indicate whether an individual obtains employment within a specified observation period.

Because employment status is binary, the relationship could be estimated using a logistic regression model:

$$Pr(EP_i = 1 \mid X_i) = 1 / [1 + \exp(-X_i\beta)]$$

Here, X_i represents the set of explanatory variables, including behavioral and institutional factors.

The proposed model could test the following hypotheses:

H1: Access to reliable labor market information is positively associated with the probability of employment.

H2: Present bias is negatively associated with job-search effort and may reduce employment prospects.

H3: The use of effective recruitment agency services is positively associated with employment outcomes.

H4: Trust in recruitment intermediaries is associated with greater use of formal recruitment services.

These hypotheses are proposed for future testing and are not presented as statistically confirmed findings.

For a more robust empirical study, researchers should also control for age, education, work experience, gender, region, and local labor market conditions.

Implications for Labor Market Development in Uzbekistan

The proposed behavioral approach may be particularly relevant to economies where employment institutions and digital labor market services are undergoing development.

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In Uzbekistan, the integration of behavioral insights into recruitment services could provide additional opportunities to support young job seekers, university graduates, unemployed individuals, and workers seeking career changes.

For example, university career centers could cooperate with recruitment agencies to provide individual career guidance, labor market information, and competency assessments.

Digital employment platforms could introduce personalized vacancy recommendations, application reminders, and clear information about employer requirements.

Recruitment agencies could also support job seekers in evaluating salary expectations and understanding the differences between available employment alternatives.

However, the effectiveness of these measures should be assessed through pilot projects and empirical evaluations rather than assumed in advance.

Behavioral interventions must also respect individual autonomy and avoid discriminatory or manipulative recruitment practices.

Policy Recommendations

The analysis provides several recommendations for improving employment institutions.

First, behavioral diagnostics should be incorporated into employment counseling where appropriate and with informed consent.

Second, recruitment agencies should provide transparent and verified information to reduce uncertainty and information asymmetry.

Third, digital employment platforms should simplify application processes and introduce accessible job-search support tools.

Fourth, university career centers and employment institutions should cooperate to improve graduates' access to relevant vacancies.

Fifth, employment policies should encourage realistic wage expectations while protecting workers' rights and ensuring decent employment conditions.

Finally, behavioral interventions should be evaluated using clearly defined performance indicators and, where feasible, randomized or quasi-experimental research designs.

CONCLUSION

Behavioral economics offers an important complementary perspective for understanding individual decisions in the labor market.

The study identifies loss aversion, present bias, anchoring, confidence-related biases, and information asymmetry as factors that may influence job-search behavior and employment decisions.

Traditional employment models focus mainly on wages, search costs, and economic incentives. The behavioral approach expands this analysis by incorporating psychological factors and individual perceptions.

The article proposes a conceptual institutional mechanism integrating behavioral diagnostics, reliable information, targeted interventions, recruitment services, and employment outcome evaluation.

Recruitment agencies can potentially contribute to improving labor market efficiency by reducing information asymmetry, supporting informed employment decisions, and facilitating better matching between employers and workers.

The practical contribution of the proposed approach lies in its possible application to employment services, digital recruitment platforms, and university career centers.

Future research should empirically test the proposed hypotheses using individual-level labor market data and evaluate the effectiveness of behavioral interventions in improving employment outcomes.

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