

*“Losing (Locus) of Control:*

*“Economic Perspective on Psychological Reactions to Unemployment Shocks”*

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Abstract:

While the effect of an individual's locus of control on labour market outcomes has been analysed repeatedly, most studies neglect the potential reverse causality between labour market outcomes and LOC and, therefore, risking biased estimation results. We use dismissals as a shock on individual's labour market position, to see whether a change in labour market status is accompanied with a change in LOC. Using German panel data, we identify a significant negative effect of losing the job through dismissal on the locus of control. As the effect is significant for individuals experiencing unemployment only, we argue that the event affects the LOC only if individuals are confronted with an actual loss of control over their labour market status, e.g. involuntary unemployment. However, as time goes by, the loss of control gets out of focus and the LOC recovers.

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