Answers to Referee 3

1 Specific comments

1. I agree with the referee: some relevant literature (previously excluded) should be discussed.

2. In a dynamic setting, the urn-ball process applies as far as one condition holds (Blanchard and Diamond, 1994; ReStud): vacancies stay opened for a discrete period time (see eqs. (1) and (2) in their paper and the discussion of these authors presented on p. 420). This is almost the same trick used by Moen in order to have a continuous time matching function identical to that of the instantaneous process. I explicitly refer to Blanchard and Diamond when going from the static form to the continuous time form of the urn-ball process (p. 5 below equation 4). Probably, I should be more precise on this, linking this result to my framework. However, I would like to remark this is a result that has been already set out in the literature.

3. There is a missing λ in eq. (12), I agree with the referee. However I remark that the matching process is solved given λ which is treated as a constant in this paper. Hence, all results are derived up to a constant (λ). They should be corrected accordingly. However the main results of the paper are not affected by the exclusion of λ from eq. (12).

4. I really thank the referee because he/her provides a proof that does not require additional assumptions. I will go in the suggested direction.

2 Minor comments

All suggestions are relevant and should be taken into account. I only remark that Blanchard and Diamond address ranking according to unemployment duration because their aim was to link directly the theory to the data concerning unemployment duration. However the reason why firms rank applicants according to unemployment duration is because they expect individuals with long unemployment histories to be less productive because of human capital deterioration. This implies ranking according to productivity. Quoting Blanchard and Diamond (1994) "An alternative assumption [.........] would be that there is an arbitrarily small deterioration of skills with unemployment duration, so that, while workers are all acceptable, the firm marginally prefers those who have been unemployed the least time" (p. 422).

I think that the focus should actually be on the neglected aspects of micro-foundation of matching function instead of the (missing) debate on it.

1