Institut für Arbeitsmarkt- und Berufsforschung

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Invitation

Equilibrium on-the-job search with heterogeneous wage formation mechanisms: theory and estimation

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I model a labor market in which workers search on and off the job and firms with heterogeneous productivity choose between two wage formation mechanisms. Firms may post a non-negotiable wage or, at a cost, they may adopt a flexible wage contract which updates to match workers' best-to-date outside offers when profitable. The model produces a separating equilibrium in which low-productivity firms choose to post and commit to wages while high productivity firms adopt the counter-offering strategy. In the left tail, where wages are ridged there is potential for equilibrium feedback of labor market policy. In the right tail, on the other hand, firms sometimes bid up wages to the marginal product of labor producing long right tail of the wage distribution, as observed in the data, without a heavy right tail of output. As a result the model is capable of matching higher order moments of the wage distribution and, simultaneously, labor share. Together these feature make the model ideal for welfare analysis. I show how the model can estimated using administrative data on labor market histories of German workers from 2006-2008. The implied cost of counter-offering and the fraction of workers working in each type of contract are estimated.

Tuesday, June 4, 2013

<u>15:00</u>

Room **<u>126a</u>**