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The German wage curve: evidence from the IAB employment sample

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Abstract

This paper examines the German wage curve using the Institut für Arbeitsmarkt und Berufsforschung (IAB) employment sample over the period 1981–1990. A random sample of 6590 employees covering 142 labor market regions over a ten year period is considered. The total number of observations is 40,852. Taking into account the endogeneity of unemployment as well as controlling for region and time effects, this paper finds support for the wage curve in Germany. The overall unemployment elasticity estimate is $\hat{\alpha} = 0.07$ and is higher for younger workers than older workers. The wages of less qualified workers are more responsive to local unemployment rates than the wages of more qualified workers. Also the wages of men are slightly more responsive to local unemployment rates than the wages of women. Ignoring endogeneity of the local unemployment rate yields results in favor of the wage curve only for younger and less qualified workers. Accounting for endogeneity of the unemployment rate yields evidence

in favor of the wage curve across all types of workers.



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Keywords

Panel Data; Wage Curve; Fixed Effects; Random effects

JEL classification

C23; J30; J60

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