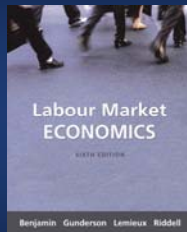


Chapter Ten

Wage Structures Across Markets



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1

Learning Objectives

- Why do wages vary across markets?
- Are public sector workers overpaid?
- Why are wages lower in some provinces?
- Are wages higher in large firms?
- Which industries and occupations provide the highest wages?

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2

Wage Structure Determinants

- Occupation
- Industry
- Region
- Large vs. Small Firms
- Men vs. Women
- Race or Ethnicity
- Immigrant Status
- Union Status
- Public vs. Private Sector

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Expanded Earnings Function

- Individual (log) wages depend on:

- Formal schooling
- Labour market work experience
- Unobserved ability or luck
- Other characteristics

$$\ln Y_i = \alpha + rS + \beta \cdot \text{EXP} + \beta \cdot \text{EXP}^2 + \gamma X_i + \varepsilon_i$$

Where:

Y = Earning; α = Fixed component of wage with no schooling; r = internal rate of return; S = Years of schooling; EXP = Experience (Age as a proxy); ε = unobserved ability or luck

- Coefficients on schooling (r), experience (β), and other characteristics (γ) can be interpreted as their rates of return

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4

2001 Census

- Pure regional wage differential
- Occupational premiums
- Industry premiums

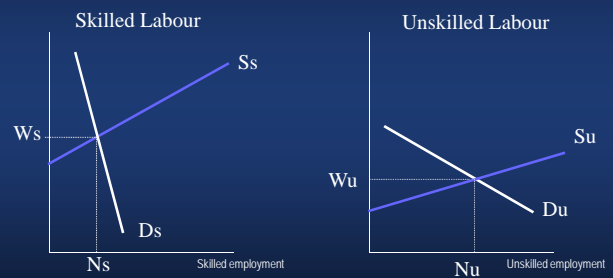
Theoretical Issues

- Other reasons for differences in earnings
 - Compensating differentials
 - Immobility across sectors
 - Short run vs. long run – temporary disequilibrium
 - Unobserved heterogeneity

Occupational Wage Structures

- The wage structure between various occupations or occupation groups:
 - National Occupational Classification (NOC)
 - Occupation (definition)
 - 26 two-digit major groups
 - 520 four-digit codes (in the 2001 NOC)

Occupational Wage Differential



Interoccupational Wage Differentials

- Compensation for:
 - Nonpecuniary differences
 - Human capital investment
 - Endowed skills
- Short-run adjustments:
 - Demand factors
- Noncompetitive factors:
 - Occupational licensing, regulation on entry, unions and legislation on wages

Regional Wage Structures

- **Reasons:**
 - Geographic preferences
 - Compensating differences
 - cost of living, remoteness, climate, non-price externalities, pollution, congestion
 - Short-run factors
 - induce mobility to encourage long run equilibrium
 - Noncompetitive factors
 - cost of moving, artificial barriers and public policies (e.g. occupational licensing)
- **Social Transfer and Regional Expansion Programs**

Migration Decision

- Geographic mobility will occur if marginal benefit exceeds marginal costs
- Factors influencing mobility:
 - Age
 - Unemployment rates
 - Business cycle
 - Distance
 - Cultural differences

Interindustry Wage Differentials

- **Theoretical Determinants of Interindustry Wage Differentials**
 - Average industry wage reflects a variety of factors:
 - Occupational composition
 - Personal characteristics
 - Regional domination
 - Pure industry wage differentials are difficult to calculate

Interindustry Wage Differentials

- Nonpecuniary aspects:
 - unpleasant or unsafe work conditions, seasonal or cyclical employment
- Short-run demand factors:
 - reallocation, technology change, free trade, and global competition
- Noncompetitive factors:
 - monopoly rents, wage laws, unions, and licensing

Efficiency Wages

- Firms may pay wages above market rate to:
 - Improve morale
 - Reduce turnover
 - Elicit effort
 - Discourage unionization
 - Establish queue of applicants

Efficiency Wages

- Productivity-enhancing wages
- Payment of efficiency wages may differ by industry
- Voluntarily paid by the firm
- Rationale for policies designed to protect “good jobs”

Interfirm Wage Differentials

- Nonpecuniary factors:
 - Poor working conditions
- Short-run demand changes
- Noncompetitive conditions:
 - Monopoly position in the product market
 - Union in the labour market
 - Efficiency wages

Public vs. Private Sector Wage Differentials

- Nonpecuniary factors:
 - job security, fringe benefits, and political visibility (e.g., influence on policy)
- Short-run factors:
 - reflect a short run disequilibrium
- Noncompetitive factors:
 - political constraint, monopsony, inelastic demand, and unionization
- Evidence? Public sector wages are higher

Summary

- Different dimensions of earnings differentials
 - Occupation, region, industry, and public vs. private sector
- Sectors wage differentials and labour mobility
- Efficiency wages
- Theoretical determinants of public vs. private wage differentials

End of Chapter Ten