First Portuguese Stata Users Group meeting

The price of unobservables and the employer size-wage premium

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Abstract

This work considers the estimation of the employer-size wage effect using an estimator that extends the standard panel data techniques to the case in which the return to permanent component of the error term is differently rewarded across firm sizes. This is a case of a more general model with interactions between time-varying explanatory variables and some unobservable, time-constant variables. We show that a model of this type can be estimated using a non-linear GMM technique. Our results show that some of the observed skills; namely, education, age, and tenure have high returns in large firm, while the opposite is true for high skilled occupations and for the gender gap. On the other hand, the price of non-observed skills is reduced as firm size increases. This finding is consistent with explanations based on the premise that large employers have more difficulty monitoring workers, which therefore leads them to monitor less closely.