

Simultaneous Determination of Wage Rates and Tenure[⌘]

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Abstract

Labor economists have recognized the potential for simultaneous determination of a worker's wage rate and tenure on a job in both theoretical and empirical models. Modeling this endogeneity illustrates when parameters related to wage and tenure determination may be subject to estimation bias or inconsistency. In this paper, we use a new specification that explicitly considers the simultaneous determination of the wage rate and tenure in estimation of the wage equation. In a discrete-time duration analysis framework, we specify a worker's tenure as an accumulation of periodic mobility decisions. We combine these decisions with an econometric model for the wage rate that allows tenure to affect the outcome in each period. Our empirical findings show that a worker with 10 years of tenure is paid approximately 6.9% more than a worker who holds a sequence of one-year duration jobs.

Keywords : Simultaneous Determination, Wage Rate, Tenure, Duration Analysis
Journal of Economic Literature Classification : J30, C41

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