

How Rigid are Nominal Wages in Italy ? Evidence from Employer-Employee Data

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This paper uses administrative longitudinal micro-data from the Italian Social Security Institute (INPS) to estimate the extent of downward nominal wage rigidity. The determinants of wage changes are explicitly modelled, as is the measurement error deriving from the fact that earnings, not hourly wages, are available in the data. Estimates show that the degree of downward nominal wage rigidity is medium/high – between 50% and 74% of all notional wage cuts being prevented by the existence of proportional rigidity.