Estimating Labor Market Power

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Date:2022-08-01

Keyword:NA

Url:[click here](https://www.nber.org/papers/w30365)

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Job differentiation gives employers market power, allowing them to pay workers less than their marginal productivity. We estimate a differentiated jobs model using application data from Careerbuilder.com. We find direct evidence of substantial job differentiation. Without the use of instruments for wages, job applications appear very inelastic with respect to wages. Plausible instruments produce elastic firm-level application supply curves. Under some assumptions, the implied market level labor supply elasticity is 0.5, while the firm level labor elasticity is 4.8. This suggests that workers may produce 21% more than their wage level, consistent with significant monopsony power.