

# The Option Value of Occupations

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## Abstract

The value of a job lies not only in the wage and nonwage amenities it pays, but also in the future opportunities it enables. This paper quantifies the value of these opportunities—the option value—associated with occupations. I develop a model of job mobility which parses the flow and option value of occupations: the flow value arises from compensating differentials whereas the option value is comprised of occupational wage promotions, job offer arrival rates, wage offers, and nonpecuniary job switching costs. I estimate the structural model on linked Hungarian administrative data and use it to quantify the relative importance of each of these mechanisms. High-skill occupations offer higher wages and more stable employment; in turn, low-skill occupations feature higher nonwage amenities but larger nonpecuniary costs of switching to high-skill jobs. As a result, workers who start their careers in a high-skill occupation in the bottom 10 percent of wages surpass those who start in a low-skill occupation in the top 5 percent of wages in 5 years. I find that occupational labor market frictions are the key ingredients to the option value of occupations.

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I am currently working on revising this paper. The old version is available here:

[https://attilagyetvai.com/research/AttilaGyetvai\\_JMP.pdf](https://attilagyetvai.com/research/AttilaGyetvai_JMP.pdf).

Key revisions:

- The framing of the paper is now about decomposing the value of jobs into flow vs. option values, and quantifying occupationally heterogeneous patterns
- I use new, longer data which cover on-the-job wage changes
- I model another channel of wage promotions on the job