The Expected Wage Premium and Models of Random Job Search*

Cesar A M Zambrano†

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Abstract

I use survey data to document facts about the *expected wage premium*: the premium or discount, relative to their wage, that employed workers expect to get in the next job offer they receive. The average expected wage premium is negative and it is decreasing in job tenure, just as predicted by classic models of random search on the job. Nonetheless, classic models of random job search cannot conciliate the high dispersion of job opportunities implied by the data on wage offers with the low magnitudes of the average expected wage premium, as the later suggest that wage gains from moving up the job ladder are small. I propose a model that can reconcile these facts, featuring: (i) wage contracts bargained based on opportunity cost, (ii) contracts characterized by fixed wages, (iii) human capital accumulation, (iv) aggregate productivity growth and (v) reallocation shocks. A key feature of the proposed model is the interaction between human capital and productivity growth with fixed wages, which allow new wage offers from the market to improve relative to workers current wages, reducing the apparent gains from job search. When calibrated to account for the new empirical regularities, the proposed model delivers less wage growth and wage inequality due to job search compared to classic random search models.

Keywords: Expected wage premium, Job search, Job ladder, Wage inequality, Wage growth

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†email: cesar.zambrano@nyu.edu; website: cesar-z/home