

# Optimal Skill Mixing Under Technological Advancements\*

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## Abstract

Using worker surveys and online job posting data, I document that the U.S. economy has seen a substantial increase in the mixing of skill requirements from 2005-2018, both for incumbent jobs and newly posted vacancies. American workers increasingly work in occupations that demand mixtures of analytical, computer, and interpersonal skills rather than specializing in one of them, even within granular occupations. This change occurred primarily in low- to medium-wage occupations, and workers in occupations that increasingly mix non-routine skills, or those with a broader set of these skills earn a wage premium. To understand the sources of these shifts, I build a directed search model with multi-dimensional skills in which firms optimally choose occupations' skill intensities before producing with a worker, delivering endogenous specialization in skill demand. Counterfactual analysis shows that the rise in the complementarity of skills in production and in the cost of skills for occupation operation are the main drivers of skill mixing shifts and the corresponding wage and employment dynamics in this period.

**Keywords:** skill demand, technological changes, occupations, search model, worker training

**JEL Codes:** J21, J23, J24, J31, E24

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# I Introduction

The nature of work in the United States has seen significant changes in recent decades. A vast literature documents the decline in the demand for “routine” tasks and associated worker skills due to technological shifts (i.e., [Autor, Levy, and Murnane 2003](#); [Acemoglu and Autor 2011](#)) and the growing importance of social skills ([Cortes, Jaimovich, and Siu 2021](#); [Deming 2017](#)). However, it remains unclear whether employers are leaning towards specific specialized skills, or seeking a broad range of skills. Additionally, if there is a trend towards a *mix* of skill demands, how does this influence workers’ returns to occupation and education choices? The degree of skill mixing among occupations carries important and distinct implications: if employers seek specific skills, indicating specialization in skill demand, then workers benefit from becoming experts in those particular skill dimensions; if, however, occupations increasingly require mixtures of different skills, indicating “skill mixing,” then multidisciplinary schooling and training become more advantageous.

This paper studies the phenomenon of employer skill mixing, exploring its implications for workers, and seeks to understand the underlying sources of these shifts. The analysis begins with the aggregation of suitable data and the creation of measures to assess skill mixing. For this purpose, I primarily employ the Occupational Information Network (O\*NET), which surveys incumbent workers of their current jobs and details the importance of different skill requirements in occupations. By considering extended time periods and focusing on continually updated occupations, I show that O\*NET allows a credible analysis of longitudinal changes in skill demand. Supplementing this, Lightcast (formerly known as “Burning Glass”) provides real-time skill demand from millions of online job vacancies, enabling the measurement of the extensive margin share of jobs that require specific skills. Equipped with these datasets, I evaluate the degree of skill mixing for each occupation by calculating the cosine similarity between an occupation’s skill vector and the unit vector on which skills along several domains are equally important; consequently, this “mixing index” increases as an occupation’s demand for different skills gets closer to each other.

Leveraging information about skill demand for both incumbent jobs and newly posted vacancies, this paper presents evidence that from 2005 to 2018, occupations in the United States increasingly demand mixtures of different skills. Using the O\*NET dataset, I show that even at the 7-digit occupation level, there is a sizable increase in the degree of skill

mixing, particularly for analytical, computer, and interpersonal skills that are considered non-routine.<sup>1</sup> Compared to 2005, the degree of mixing of these skills in 2018 as captured by the skill mixing indexes has increased by 9.2 percentiles on average. The growth of skill mixing is even starker in higher-level 4-digit occupations, by 12.4 percentiles on average and 11 percentiles for constantly updated occupations. For example, in 2005, "Maids and Housekeeping Cleaners" valued interpersonal skill four times over analytical and twice over computer skill. By 2018, analytical skill equaled, and computer skill reached two-thirds of interpersonal skill's importance. Conversely, for "Insurance Appraisers, Auto Damage," computer skill consistently led in importance, but by 2018, analytical skill doubled and interpersonal skill tripled, both surpassing 60 percent of computer skill's importance.

I highlight two new facts about skill mixing. First, a shift-share decomposition of the rising trend in skill mixing attributes the majority of the increase to changes within occupations, rather than workers reallocation across occupations. This pattern distinguishes skill mixing apart from other labor market changes for which worker reshuffling plays a key role or for which the change is mainly across-occupation.<sup>2</sup> Further decomposition shows that the within-occupation increases in skill mixing persist accounting for workers' gender, education, experience, and are robust to alternative measures of skills and indexes of mixing. Second, the most pronounced rise in the mixing of the three non-routine skills appears in service and white-collar occupations, including roles like healthcare givers and housekeepers. Whereas blue-collar occupations, such as operators and machinists, have witnessed a more significant mixing of routine skill and the three non-routine skills. On the other hand, high-wage managerial and professional occupations show relatively limited skill mixing.

The phenomenon of skill mixing bears significant distributional consequences in the labor market. A notable structural shift in the U.S. labor market since the 1980s has been job polarization ([Acemoglu and Autor 2011](#); [Goos, Manning, and Salomons 2014](#)), a trend that continues to be evident in the data from 2005 to 2018. Skill mixing emerges as a key

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<sup>1</sup>O\*NET's occupational classification is based on the Standard Occupational Classification (SOC) system but offers more granularity. For example, in 2010, O\*NET lists 1,110 unique 7-digit occupations, which correspond to 868 unique SOC 7-digit occupations. For the analysis at a higher occupational level using census data, I first crosswalk O\*NET occupations to the SOC, and then employ crosswalks between SOC and census occupations from [Autor and Price \(2013\)](#) and developed by [Deming \(2017\)](#).

<sup>2</sup>For example, in [Autor and Dorn \(2013\)](#), the polarization of the labor market is attributed to the substitution of medium-skill workers in routine jobs and their flow into service jobs; in [Deming \(2017\)](#) across-occupation employment shift drive the rising importance of social skills. [Dodini, Lovenheim, and Willen \(2022\)](#) find that changes in employment concentration across existing occupations account for the skill intensity differential of unionized workers.

factor in explaining these distributional dynamics. For occupations within similar wage ranks in 2005, it is observed that those that have become more skill-mixed experience greater growth in both employment shares and wages. Remarkably, the growth in employment and wages during this period is almost exclusively attributed to occupations that have become more in skill-mixed. Therefore, skill mixing provides a novel and multi-dimensional lens to understand these labor market transformations.

To evaluate the impact of skill mixing on workers' labor market outcomes, I estimate the wage returns to skill mixing by combining the National Longitudinal Survey of Youth 1979 and 1997 (NLSY 79 & 97), taking advantage of the rich information on participant's abilities, employment, and educational histories. I find a significant return to skill mixing for both occupational choices and worker skills. To assess the wage premium, I estimate a regression model that incorporates multiple skills and their degrees of mixing for both occupations and individual workers, with worker and occupations fixed effects in the spirit of [Abowd, Kramarz, and Margolis \(1999\)](#) (hereafter AKM). My preferred specifications indicate that workers in occupations that become a standard deviation more mixed in analytical, computer, and interpersonal skills gain a 1.5 percent wage premium; meanwhile, workers who are more mixed in these skills earn 6.5 percent more. I further show some additional returns to skill mixing, both in terms of employment and college major choices.

The rich empirical findings on skill mixing pose challenges in understanding their underlying forces. I build a directed search model with several novel features to investigate the mechanisms of skill mixing. First, the model represents both firms and workers through multi-dimensional skills, laying the basis for an examination of skill mixing. Second, before producing with workers, firms of both vacant and incumbent jobs will need to design their occupations, incurring a cost payable upon operating the occupation that depends on their skill demand choices, as in [Acemoglu \(1999\)](#).<sup>3</sup> This endogenous occupation design is crucial in delivering the dynamic choices of skill mixing based on the skill distribution in the labor market. Third, the model incorporates non-linear production and cost technologies, departing from the common assumption of linear production functions in standard search models. This non-linearity allows the model to capture the varying degrees of skill complementarity in

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<sup>3</sup>The endogenous choices of the intensity of inputs were first studied in the appropriate technology literature ([Atkinson and Stiglitz 1969](#); [Basu and Weil 1998](#); [Acemoglu and Zilibotti 2001](#); [Jones 2005](#); [Caselli and Coleman 2006](#); [León-Ledesma and Satchi 2019](#)). Several studies in the labor literature allow firms to adjust labor usage as well as the quantity margin. In [Lazear \(2009\)](#), firms choose the weight on the skills workers supplied; in [Eeckhout and Kircher \(2018\)](#), firms trade-off between more versus higher quality workers; allows firms to choose appropriate skills given equilibrium skill prices.

production and the increasing marginal costs of combining skills in occupations.

The model provides insights into changes in skill mixing, wages, and employment that are tied closely to the empirical observations. Central to its insights is the idea that, as skills become more complementary in production or as their marginal costs increase, firms find it more profitable to mix skills than to specialize. Further, in designing the occupations, firms take into account the skills different workers bring and the likelihood of employing those workers. The model further links the production and cost technology, as well as worker skill supply adjustment to wage and employment distributions.

I then quantitatively evaluate the model to assess the relative importance of various channels' contributions to the observed skill mixing and to investigate their implications for wages and employment. Using two periods of NLSY data, I calibrate the model parameters by targeting the wage and employment distribution across different occupation and worker types, as well as the degree of skill mixing of occupations. Besides matching these targeted moments closely, the model replicates well the wage returns of skill mixing. The calibration results reveal that in a multi-dimensional matching framework, skills are substitutable in production, and firms face increasing marginal costs in operating occupations. Notably, sizable technology shifts have occurred: from the early 2000s to the late-2010s, there has been an increase in the complementarity of skills in production and also in firms' cost of skills for occupation operation. Meanwhile, the efficiency of analytical, computer, and interpersonal skills has increased, but has declined substantially for routine skill.

Counterfactual analyses further illustrate that the technology shifts reflected in the increase in skill complementarity in production and in cost of skills for occupation operation appear as the main drivers of skill mixing variations. Changes in skill efficiency of different workers also play a significant role. These same forces increase the wage and employment gap of high-wage occupations (managerial, professional, and white-collar jobs) over medium- to low-wage occupations (blue-collar and service jobs), although the rising cost of skills for occupation operation has compressed high-wage occupations' employment gains. Together, these results point to the important role technological advancements play in driving changes in both skill mixing and the wage and employment distributions.

The rest of the paper is organized as follows. The ensuing section connects this paper to a broader set of literature and discusses the contributions. Section III presents the main empirical findings about skill mixing and many of its features. In section IV, I show the returns

to mixing both at the occupation and worker levels. Section V presents a directed search model with occupation design to study the skill mixing problem and derive comparative statistics. Estimation of the model parameters and counterfactual analysis are discussed in Section VI. Section VII concludes.

## II Literature Review

I study labor market dynamics emphasizing *skill mixtures* and explore new theoretical perspectives to explain them. The empirical objective aligns with the literature investigating the long-term trend of skill demand and skill-biased technological changes (i.e., Tinbergen 1974, 1975; Katz and Murphy 1992; Autor, Katz, and Krueger 1998; Autor, Levy, and Murnane 2003; Goldin and Katz 2010; Acemoglu and Autor 2011; Autor and Dorn 2013; Deming and Kahn 2018; Deming and Noray 2020).<sup>4</sup> My finding that the within-occupation changes drive skill mixing is consistent with other studies that find a major role played by within-occupation variation for aggregate job attributes (Autor and Handel 2013; Atalay et al. 2020; Freeman, Ganguli, and Handel 2020; Cortes, Jaimovich, and Siu 2021).<sup>5</sup> Unlike these studies, this paper studies skills in their conjunction, i.e., as mixtures, and show that employers do increasingly require mixtures of skills from workers, especially non-routine ones. This paper further finds that skill mixing has important distributional implications for wage and employment and for workers' return in occupation and education choices. The evidence on skill mixing leads to unique policy implications and broadens the understanding of the influence of technological change on the labor market.

Two papers closely related to the empirical phenomenon documented in this paper are Hershbein and Kahn (2018) and Deming (2017). The former illustrates that employers in metropolitan areas hit harder by great recession were more likely to post jobs demanding cognitive and computer skills, particularly in routine-cognitive occupations. My analysis

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<sup>4</sup>The changes in relative efficiency of inputs is the focus of the skill-biased technological change (SBTC) literature, and has been shown to successful account for the major U.S. wage dynamics. See for example, Katz and Murphy (1992), Autor, Katz, and Krueger (1998), and Goldin and Katz (2010). This paper incorporates both changes in relative skill efficiency and changes in the skill complementarity, and show the latter's important role in determining skill mixing, wage shifts, and employment distribution post 2000s.

<sup>5</sup>Extracting task information from job ads, Atalay et al. (2020) reveal that the major change in job content during 1950-2000 occurred within-occupation, a pattern that is found to persist post-2000 by Freeman, Ganguli, and Handel (2020). Cortes, Jaimovich, and Siu (2021) show that from 1980 to post-2010, high-paying occupations in the United States require more social skills. Using worker-reported job tasks, Autor and Handel (2013) find that there is significant within-occupation variation in task requirements.



differs by demonstrating that skill mixing occurs for a broad set of skills, within a wide array of granular occupations, and is not specific to regions or economic downturns. [Deming \(2017\)](#) highlights that occupations requiring higher math and social skills based on O\*NET 1997 have seen increased employment and wage growth from 1980 to 2012. In contrast, I use various versions of O\*NET to capture longitudinal changes in skill demand and explore the wage and employment gains stemming from within-occupation skill mixing shifts.

Theoretically, I build a directed search model with multi-dimensional skills and endogenous occupation design, following the literature on directed search (i.e., [Menzio and Shi 2010, 2011](#); [Kaas and Kircher 2015](#); [Schaal 2017](#); [Baley, Figueiredo, and Ulbricht 2022](#); [Braxton and Taska 2023](#)). Two main contributions of this model are: First, I allow firms to have endogenous skill demand in the spirit of [Acemoglu \(1999\)](#), which delivers the comparative statics regarding skill mixing. Second, I model skills in a multi-dimensional environment with non-linearity technologies. As such, the model incorporates directed search on both the worker and firm sides with high-dimensional heterogeneity on the two sides, which departs from most search models, but allows me to analyze the changes in skill mixing and the contribution of skill complementarity and cost factors.

The foundational model for worker sorting can be traced back to the seminal work of [Roy \(1951\)](#). Within this framework, occupations are treated as distinct categories, each requiring a unique skill, and workers possess skills specific to particular occupations, preventing the exploration of skill mixing.<sup>6</sup> An earlier tradition, including theoretical work by [Shi \(2001\)](#) and empirical investigations such as [Hagedorn, Law, and Manovskii \(2017\)](#), adopt a single-dimensional index to represent worker heterogeneity. By design, these models preclude discussions on skill mixing. A burgeoning literature explores the multidimensional matching of workers and firms that features two-sided heterogeneity and skill transferability (i.e., [Yamaguchi 2012](#); [Lindenlaub 2017](#); [Lise and Postel-Vinay 2020](#)). While much of this literature focuses on the assortative nature of worker-firm matching and the evolution of worker skills<sup>7</sup>, this study instead examines firms' endogenous skill demand trade-offs in response to technological advancements or shifts in skill supply.

A related literature, inspired by [Rosen \(1983\)](#), [Murphy \(1986\)](#), and [Heckman and Sedlacek \(1985\)](#), features skill indivisibility or bundling, allowing for nonlinear wage schedules and a

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<sup>6</sup>In Roy or Ricardian type of models, workers will also specialize in a particular skill based on comparative advantages, making it harder to study skill mixing's implications for workers.

<sup>7</sup>A notable exception is [Ocampo \(2022\)](#), which introduces the optimal combination of tasks, leading to endogenous occupational heterogeneity.

flexible degree of occupational specialization. [Choné and Kramarz \(2021\)](#) introduce a skill bundling framework featuring heterogeneous firms and using Swedish matched employer-employee data, they find that generalist workers earn more over time. In a separate study, [Edmond and Mongey \(2021\)](#) show that when skill are priced differently across occupations, firms tend to adopt technologies that reflect these skill prices, leading to opposing within-occupation changes in inequality. A critical aspect of these models is the need to take a stance on the aggregation of worker skills within firms, as discussed by [Eeckhout and Kircher \(2018\)](#). Different from this approach, I apply a matching model to address the indivisibility of skills and endogenous skill demand at the worker level, inherently delivering nonlinear wages and skill mixing.

Quantitatively, I provide model-based identification of the elasticity of substitution parameters among a number of different skills and the relevant occupation operation cost parameters under a tractable general equilibrium model of the labor market with endogenous skill intensities. These results contribute to the recent work on task-based models that has typically assumed exogeneity of the elasticity of substitution among different types of skills (i.e., [Autor, Levy, and Murnane 2003](#); [Autor and Dorn 2013](#)), and also relates to studies on the elasticity of substitution among different types of workers ([Johnson 1997](#); [Heckman, Lochner, and Taber 1998](#); [Krusell et al. 2000](#)).

### III Evidence of Skill Mixing

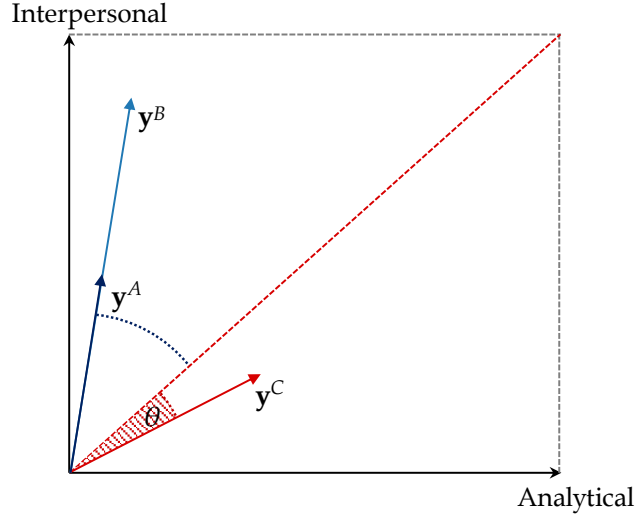
In this section, I examine the shifts in the extent of skill mixing in the economy. I start by showing that an angle-based index can effectively measure the magnitude of skill mixing of occupations within a multi-dimensional skill space. Using both O\*NET and Lightcast data at varying levels of granularity, I explore the growth in skill mixing, decomposing it into across- and within-occupation changes. I further explore the primary sources of this variation and the differences across occupation groups. Lastly, I underscore the significance of the mixing of different skills by relating it to the changes in employment and wage distributions.

#### III.A Measures and Data

**The Degree of Skill Mixing:** To evaluate the degree of skill mixing in an occupation, one can analyze the angular difference between the occupation’s skill vector and the unit vector,



Figure 1: Illustrating Skill Mixing



*Notes: This figure contrasts three occupations—A, B, and C—in the two dimensional skill space of analytical and interpersonal skills. Each occupation is characterized by its skill vector ( $\mathbf{y}^A$ ,  $\mathbf{y}^B$ , and  $\mathbf{y}^C$ ), as well as by the angle ( $\theta$ ) between the skill vectors and the 45-degree line.*

on which different skill requirements are equivalent. Figure 1 illustrates this in the two-dimensional skill space of analytical and interpersonal skills, showing three occupations represented by vectors ( $\mathbf{y}^A$ ,  $\mathbf{y}^B$ , and  $\mathbf{y}^C$ ). Occupations A and B exhibit greater specialization towards interpersonal skill, as their vectors diverge from the diagonal in the direction of the interpersonal skill axis. Despite varying skill intensities — with occupation B's vector ( $\mathbf{y}^B$ ) being notably longer than occupation A's ( $\mathbf{y}^A$ ) — they share a similar degree of skill mixing, evident from the angle ( $\theta$ ) between their vectors and the diagonal line. The emphasis of skill mixing is on the proportionate use of different skills (indicated by the angle) rather than the overall skill intensity (represented by the vector's length). In contrast, occupation C demonstrates a higher degree of skill mixing, evident from its smaller angle ( $\theta$ ) to the diagonal line.

As  $\theta$  decreases, indicating a higher degree of skill mixing,  $\cos(\theta)$  increases, making it an suitable measure for skill mixing. Building on this concept, I transition from the two-dimensional representation in Figure 1 to a multi-dimensional space. I accomplish this by employing the cosine similarity between an occupation's skill vector and a multi-dimensional norm vector.<sup>8</sup> Specifically:

<sup>8</sup>Cosine similarity together with other measures, such as Euclidean distance and Manhattan distance, have been used to calculate the similarity between vectors (i.e., Xia, Zhang, and Li 2015). An angle-based measure is by no means the only measure of skill mixing, though it has the clearest graphical illustration of the trade-off among

**Definition 1** (Degree of Skill Mixing of an occupation). *The skill mixing index for an occupation  $j$  in a  $K$ -dimensional space characterized by the skill intensity vector  $\mathbf{y}^j = \{y_1^j, \dots, y_k^j, \dots, y_K^j\} \in S \subset \mathbb{R}^{K+}$  is the cosine similarity between its skill vector and the norm  $\hat{\mathbf{v}}$  in the skill space.*

$$Mix(\mathbf{y}^j) = \frac{\mathbf{y}^j \hat{\mathbf{v}}}{\|\mathbf{y}^j\| \cdot \|\hat{\mathbf{v}}\|}, \text{ where } \hat{\mathbf{v}} = [1, 1, \dots, 1]' \subseteq \mathbb{R}^{K+}. \quad (1)$$

The mixing index, as described in equation (1), captures the same intuition presented in Figure 1. It evaluates the multi-dimensional angular similarity between a skill vector  $\mathbf{y}^j$  of dimension  $K$  and the multi-dimensional norm  $\hat{\mathbf{v}}$ . As different skills in  $\mathbf{y}^j$  get closer to each other, the value of  $Mix(\mathbf{y}^j)$  will rise accordingly. There are three key advantages of the skill mixing index defined using cosine similarity that are worth noting. First, it easily accommodates occupations represented by multi-dimensional skills. Second, this index is independent of the length of the skill vector, and focuses on the proximity between a skill vector and the norm, which indicates the degree of skill mixing. Lastly, this measure is inherently normalized, as the cosine of an angle in the first quadrant (indicating positive skills) lies in  $[0,1]$ .

**Data Construction:** In analyzing the extent of skill mixing within occupations over time, I primarily use the Occupational Information Network (ONET). This dataset provides detailed information about the importance of skill requirements for various occupations, offering an intensive measure of skill demand. To complement the insights from ONET, I also use data from online job postings via Lightcast. This dataset captures whether certain skills are required for the job postings, offering an extensive measure on skill demand for unfilled vacancies specifically. Below I discuss the details of data construction.

Developed by the North Carolina Department of Commerce and administered by the U.S. Department of Labor, O\*NET is a successor to the Dictionary of Occupational Titles (DOT). It has become a primary resource for analyzing occupational skill requirements and work environments (i.e., see [Acemoglu and Autor 2011](#); [Yamaguchi 2012](#); [Deming 2017](#)). O\*NET offers an comprehensive picture of occupations, covering approximately 270 descriptors categorized into nine modules.<sup>9</sup> While the earlier versions of O\*NET include legacy ratings

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skills. Online Appendix A.5 discusses two alternative skill mixing indexes: inverse Herfindahl–Hirschman Index (HHI) and normalized absolute distance.

<sup>9</sup>For a comprehensive overview of O\*NET, refer to online Appendix A.1, and for a discussion on the descriptors employed, see online Appendix A.2.

from DOT analysts, a shift occurred in 2003 when O\*NET began sourcing responses from random samples of workers (job incumbents). To ensure consistent measurement, I choose descriptors from questionnaires updated based solely on these worker surveys.<sup>10</sup>

A key challenge when using O\*NET comes from employing the longitudinal variation in occupation descriptors. Specifically, while each version of O\*NET contains roughly 970 7-digit occupations, an average of 110 occupations undergo updates annually.<sup>11</sup> Such a pattern of updates could introduce selection bias when constructing measures of skill demand based on the descriptors. Contrasting prior research, which often explores worker reallocation across occupations using a single O\*NET version, this paper's emphasis on the dynamics of skill demand requires the examination of these longitudinal changes.

To examine these longitudinal shifts in skill demand via O\*NET data, I employ two approaches, following works such as [Ross \(2017\)](#) and [Freeman, Ganguli, and Handel \(2020\)](#). First, I focus on broader year intervals. For the time period from 2005 to 2018, I analyze the differences in skill requirements between the start and end of this period, during which most occupations are updated at least twice. To capture more granular time patterns, I use 4-year intervals, ensuring updates to cover over half of the occupations within these intervals. Given that each O\*NET version retains data from prior years, I make a distinction between the release year and the represented year when integrating O\*NET with other datasets. Online Appendix [A.1](#) shows the specific O\*NET versions used, their release dates, and the corresponding years.<sup>12</sup> Second, 274 7-digit occupations consistently receive updates between 2005, 2011, and 2018. While these occupations do not represent the entire economy, their trends under continual updates supplements the broader occupation analysis.

*Furthermore*, I utilize data from online job postings from Lightcast (previously "Burning Glass") for the years 2007 and from 2010 to 2017 that offers insights into unfilled vacancies. Lightcast is a labor market analytics firm that collects and analyzes millions of online job postings and provides detailed education requirements and thousands of codified skills extracted from the posting text. The key advantage of Lightcast data is that it provides

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<sup>10</sup>Specifically, I use descriptors from the Work Context, Work Activities, Knowledge, and Skills questionnaires. After 2003, O\*NET still contain responses from job analysts for questionnaires that have small sample sizes from workers. I abstract from those questionnaires in this paper.

<sup>11</sup>The decision of occupation updating is based on analysts' evaluations of factors such as the size of employment, the demand for labor, and alterations in the type of work involved. See [Tippins and Hilton \(2010\)](#) for more details.

<sup>12</sup>Specifically, O\*NET versions 13.0, 18.0, 22.0, and 25.0 were released in 2008, 2013, 2017, and 2022, respectively. These versions are interpreted as representing the years 2005, 2009, 2013, and 2018, respectively.

comprehensive and up-to-date information on labor demand, and many recent studies have used this dataset to analyze trends in job skill requirements (see, i.e., [Deming and Kahn 2018](#); [Hershbein and Kahn 2018](#); [Braxton and Taska 2023](#)). It is essential to recognize that while O\*NET gauges the level and importance of a skill (intensive margin), Lightcast identifies whether a skill is required for a vacancy (extensive margin).<sup>13</sup> I employ Lightcast as an additional source to complement the picture of skill mixing changes over time.

**Skill Measures:** Leveraging the O\*NET occupation descriptors, I first derive skill measures in line with [Acemoglu and Autor \(2011\)](#) to focus the analysis on the degree of skill mixing. These measures are widely applied and are easily comparable with other studies. To have a feasible dimension of skills to understand their mixing, I consolidate the two routine skills (routine cognitive and manual) into one, which I call routine skill, while I keep the non-routine skills (non-routine analytical and interpersonal) separate.<sup>14</sup> To capture the rise of computer technology post-2000, I also construct a computer skill measure based on two components related to programming and interacting with a computer. As these work activities are not easily codifiable, computer skill is also considered to be non-routine.<sup>15</sup> Appendix Table [A2](#) shows the detailed composing descriptors for each of the skill measures.

While these four skill measures including both routine and non-routine skills (hereafter RNR) serve as the core of this study’s analysis, to provide a more comprehensive perspective on evolving skill demands, I also introduce two additional skills that have not been analyzed in previous studies and that are relatively non-routine—leadership and design. To enhance the reliability of these skill measures, especially for granular longitudinal time patterns, I apply principal component analysis (PCA) on the chosen descriptors following [Guvenen et al. \(2020\)](#) and [Yamaguchi \(2012\)](#). The final skill measures are linearly rescaled to lie in [0,1].<sup>16</sup>

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<sup>13</sup>Several caveats of Lightcast data are that it may not capture jobs advertised through other channels, possibly over-represents certain sectors that tend to advertise online, and inherently might favor growing firms ([Davis, Faberman, and Haltiwanger 2013](#)).

<sup>14</sup>Since I only use descriptors updated by job incumbents in this study, I do not use non-routine manual skill since part of the composing descriptors comes from surveys of job analysts exclusively.

<sup>15</sup>For subsequent references to specific non-routine skills, I use terms like analytical, interpersonal, or computer skill, excluding the prefix "non-routine."

<sup>16</sup>Based on Definition 1, it is crucial that skill vectors are in the positive real space for an angle-based measure to be appropriate. In that regard, normalization by standard deviation will not work unless with additional re-normalization, and linear transformation to a positive interval appears most desirable as it also retains the cardinal information that is likely to be useful for an easily interpretable skill comparison (i.e., [Autor and Handel 2013](#); [Deming 2017](#); [Lise and Postel-Vinay 2020](#)). Alternative measures of skills and skill mixing are discussed in online Appendixes [A.5](#) and [A.6](#).

As a check of validity, online Appendix Table A3 shows that my constructed skills correlate highly with other similar skill measures used in the literature. In online Appendix A.2, I build “broader” skill measures that each include more relevant descriptors than Acemoglu and Autor (2011), which are also highly correlated with the benchmark ones. Along with the discussion of my empirical results, I demonstrate their robustness to using alternative measures of skills and indexes of skill mixing.

Regarding the Lightcast data, I directly use the measures from Braxton and Taska (2023), which in turn are based on the methodology of Hershbein and Kahn (2018). Specifically, for the years 2007 and 2010-2017 of Lightcast data that this study uses, a vacancy is defined to use analytical skill if any of the codified job skills contain keywords such as “research”, “analy”, and “decision”. Similarly, a vacancy is defined to require interpersonal skill if the codified job skills contain keywords such as “communication” or “teamwork”.<sup>17</sup> Each occupation’s skill measure is then determined by the proportion of vacancies demanding that specific skill, capturing the extensive margin of firm skill demand. To classify occupations within the Lightcast data, I used a 4-digit consistent census occupation code, as developed by Autor and Dorn (2013) to ensure matching with other datasets.

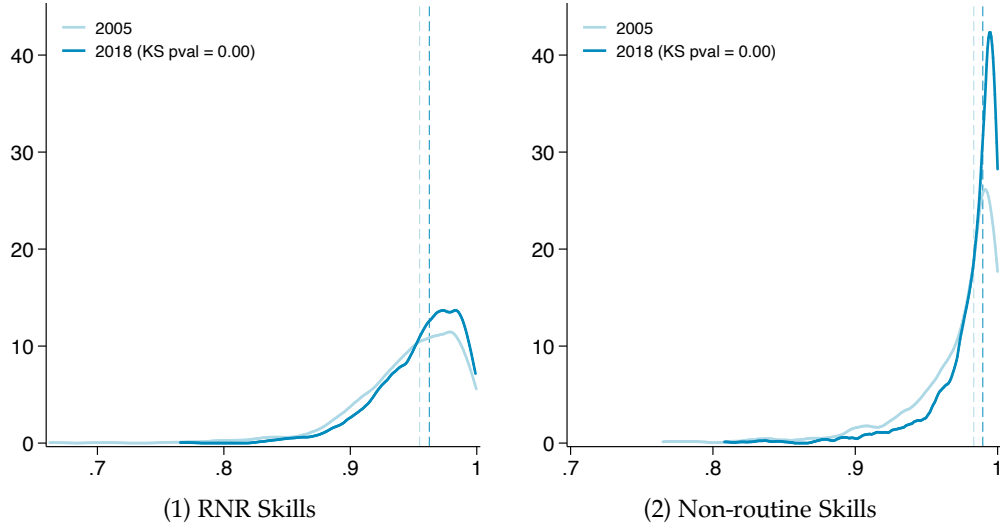
### III.B Aggregate Trends

From 2005 to 2018, occupations in the U.S. economy has seen a significant increase in skill mixing, with the rise particularly pronounced for non-routine skills. I start by showing that this trend at granular 7-digit occupations from O\*NET data. Figure 2 depicts the density and median values of two different skill mixing indexes for the years 2005 and 2018: the first index incorporates the four routine and non-routine (RNR) skills; the second focuses on the three non-routine skills (Non-routine). Panel (1) first reveals a modest rightward shift in the density of skill mixing index for RNR skills during this period. The Kolmogorov-Smirnov (KS) test confirms the distributional difference as statistically significant at the 1 percent level. However, there is more noticeable shift in density for only non-routine skills (analytical, computer, and interpersonal) as shown in Panel (2). By 2018, the density of the skill mixing indexes of these non-routine skills peaks at a much higher value than 2005, and the distribution’s shift to the

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<sup>17</sup>More specifically, the keywords used to capture analytical skill are: “research”, “analy”, “decision”, “solving”, “math”, “statistic”, and “thinking”. The keywords used to capture interpersonal skill are “communication”, “teamwork”, “collaboration”, “negotiation”, and “presentation”. The key words used for computer skill are “computer”, or any skill flagged as software by Lightcast.

Figure 2: Density for Skill Mixing Indexes (Cosine Similarities), 2005 vs. 2018



Notes: These figures plot the kernel density of different skill mixing indexes in 2005 (light blue line) and 2018 (dark blue line). The x-axis displays the value of skill mixing indexes with a maximum of 1 by construction. “RNR” stands for the one routine and three non-routine skills (analytical, interpersonal, computer). “Non-routine” skills only include the three non-routine skills. Specific composing descriptors of the skills are in online Appendix Table A1. These plots are created using O\*NET at 7-digit occupations unweighted by employment.

Table 1: Examples of Top 7-Digit Occupations in Skill Mixing Growth

| Top Occupations                   | Year | Analytical | Computer | Interperson | Routine | Mixing Index | Percentile |
|-----------------------------------|------|------------|----------|-------------|---------|--------------|------------|
| <b>Mix of Non-routine Skills</b>  |      |            |          |             |         |              |            |
| Maids and Housekeeping Cleaners   | 2005 | 0.06       | 0.11     | 0.31        |         | 0.83         | 0          |
|                                   | 2018 | 0.31       | 0.21     | 0.32        |         | 0.98         | 48         |
| Insurance Appraisers, Auto Damage | 2005 | 0.32       | 0.64     | 0.14        |         | 0.87         | 2          |
|                                   | 2018 | 0.60       | 0.73     | 0.40        |         | 0.97         | 36         |
| <b>Mix of RNR Skills</b>          |      |            |          |             |         |              |            |
| Cutters and Trimmers, Hand        | 2005 | 0.16       | 0.20     | 0.23        | 0.81    | 0.80         | 3          |
|                                   | 2018 | 0.30       | 0.23     | 0.41        | 0.60    | 0.94         | 55         |
| Graders and Sorters, Agriculture  | 2005 | 0.11       | 0.09     | 0.23        | 0.59    | 0.79         | 3          |
|                                   | 2018 | 0.34       | 0.23     | 0.45        | 0.67    | 0.93         | 37         |

Notes: This table highlights specific 7-digit O\*NET occupations that among the top in growth in skill mixing from 2005 to 2018. It provides details on skill compositions of skills within these occupations and the corresponding changes in skill mixing levels. Two skill mixing indexes are employed in this analysis. The first index encompasses the three non-routine skills (analytical, computer, interpersonal) while the second focuses both routine and non-routine (RNR) skills. The final column of the table translates skill mixing levels into percentiles based on the 2005 distribution.

right is more pronounced, indicating a substantial growth in occupations demanding a high

level of mixing of non-routine skills.<sup>18</sup>

To provide a clearer interpretation of the magnitude of the changes in skill mixing, Table 1 highlights 7-digit occupations that are among the top in mixing non-routine and RNR skills from 2005 to 2018. By examining specific skill compositions, we can discern the driving forces behind skill mixing shifts. For example, the occupation "Maids and Housekeeping Cleaners" witnesses a 0.15 increase in their non-routine skills mixing index during this period. In 2005, interpersonal skill was 4 times more important than analytical skill and 2 times more than computer skill. However, by 2018, analytical skill matched the importance of interpersonal skill, and computer skill reached two-thirds the importance of interpersonal skill. In contrast, for "Insurance Appraisers, Auto Damage," even though computer skill stays consistently more important than the other two skills across this period, analytical skill has become twice as essential, whereas the significance of interpersonal skill has tripled, leading to a 0.1 increase in the mixing index. The occupations that mix RNR skills typically have a high routine skill level in 2005 and show a significant increase in the mixture of other skills. For ease of understanding, the final column translates these skill mixing levels into percentiles based on the 2005 distribution, and indicates that these occupations have about 35 to 50 percentile increase in the degree of skill mixing during this period.

This pattern of growth in skill mixing is not unique to the choice of non-routine skills and becomes even sharper when accounting for the composition of labor force across occupations. In online Appendix A2, I show that the rightward shift in the density of the mixing index remains consistent when including other non-routine skills (leadership and design). I also combine O\*NET data with detailed employment weights from the Occupational Employment and Wage Statistics (OEWS).<sup>19</sup> The rightward shift of all the skill mixing indexes becomes more pronounced when weighted by employment shares, implying that occupations with larger employment shares have a more significant rise in skill mixing.

**Time Trend:** To more carefully examine the time profile of the shifts in skill mixing and understand the sources of variation, I combine the longitudinal variation in skill mixing from

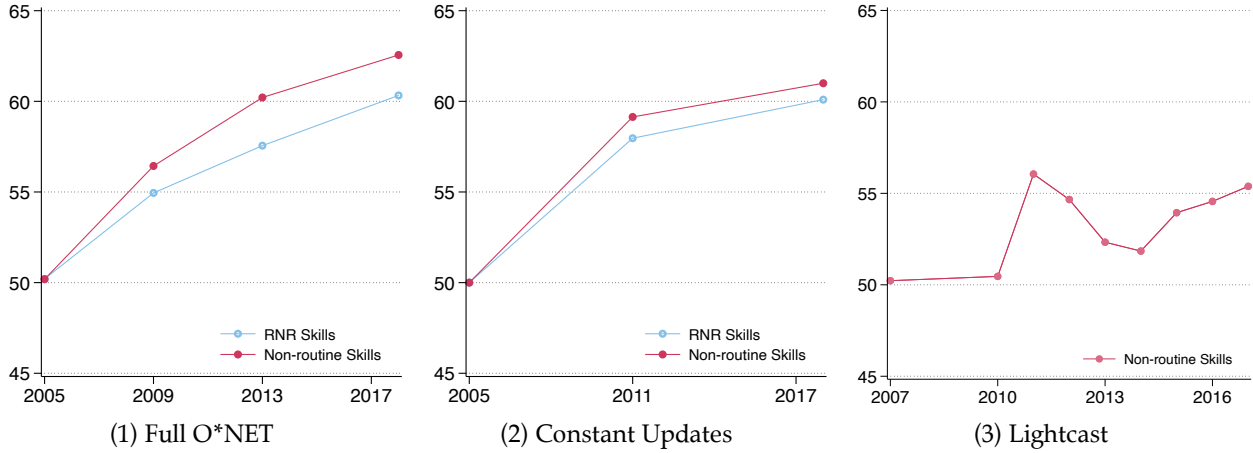
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<sup>18</sup>In addition to index-based evaluation of skill mixing, one can also non-parametrically examine occupation skill requirements in two-dimensional spaces. Online Appendix A.3 discusses and presents non-parametric plots for six skill pairs from both 2005 and 2018, confirming the observed increase in skill mixing, particularly for non-routine skills.

<sup>19</sup>The OEWS uses 6-digit SOC codes, while O\*NET uses 7-digit occupation codes that are based on 6-digit SOC. I match OEWS with O\*NET at a 6-digit SOC level and distribute the employment weight evenly for 7-digit O\*NET occupations within a 6-digit occupation.



Figure 3: Trend of Skill Mixing in the US Economy, 2005-2018



Notes: These figures plot the employment-weighted skill mixing indexes in the U.S. economy from 2005-2018. The y-axis is the percentile of skill indexes in year 2005. By construction, each index has a mean of 50 percentiles in 2005; succeeding points are employment-weighted means mapped to its percentiles in 2005. Panel (1) and (2) combine O\*NET and ACS data with consistent 4-digit occupation codes from [Autor and Price \(2013\)](#) and developed by [Deming \(2017\)](#). The matching of different O\*NET releases and ACS years are detailed in online Appendix Table A1. Panel (1) show the trend for the universe of occupations while Panel (2) only include 274 7-digit occupations that are constantly updated between 2005, 2011, and 2018. Panel (3) combines Lightcast job posting data and the ACS with the same occupation coding. Employment weights from ACS are the total hours of work aggregated to sex-education-industry-occupation cells.

O\*NET with worker employment and characteristics from the ACS. I show the trend at 4-year intervals so that more than half of the occupations (about 60 percent of employment) are updated between observations. By construction, each index has a mean of 50 percentiles in 2005; succeeding points are employment-weighted means of each index mapped to its percentiles in 2005. I weight each skill requirement from O\*NET by the total hours of work in each sex-education-industry-occupation cell in the ACS to implicitly control for changes in task inputs due to variations in gender, education, industry, and occupation compositions in the U.S. economy (see [Autor, Levy, and Murnane \(2003\)](#) and [Deming \(2017\)](#) for other examples).

Figure 3 demonstrates that the degree of skill mixing has risen substantially and steadily between 2005 and 2018. By 2018, the degree of mixing in non-routine skills for an average occupation in the US economy is 12.4 percentiles higher than its 2005 level. The degree of skill mixing in RNR skills has also increased steadily to a slightly lesser extent, averaging 10.1 percentiles higher.<sup>20</sup> A potential concern of using O\*NET data to obtain the longitudinal

<sup>20</sup>The inclusion of routine skill decreases the magnitude of the rise in skill mixing implies that the speed of mixing of routine with other skills is slower than the speed of mixing among non-routine skills. Online

variation of skill demand is that the trend could be affected by the inconsistency in occupation updating. In Panel (2) of Figure 3, I compute these trends focusing solely on the 274 7-digit occupations that are constantly updated between 2005, 2011, and 2018, thus reflecting a consistent updating of skill requirements among these occupations. The same qualitative pattern holds, that is, there has been a sharp increase in the degree of skill mixing, particularly of non-routine skills between 2005 and 2018. Nonetheless, for the constantly updated occupations, the shift is mostly pronounced before 2011.<sup>21</sup>

In Panel (3) of Figure 3, I complement the picture of changing degree of skill mixing using the Lightcast data through a similar pairing with O\*NET data starting in 2007, the first year when the company starts to collect job postings. Overall, firms are more likely to post job requirements that contain more mixed-skill demands. By 2017, the degree of skill mixing in online posted vacancies averaged 5.2 percentiles higher compared to 2007. The time pattern of skill mixing among online job postings appears to be more volatile, first peaking in 2011, then sliding down until 2014, before rising dramatically afterwards. Despite the greater variance, the same qualitative pattern holds that occupations have a higher demand for the mixing of non-routine skills.<sup>22</sup>

One may be concerned about that the overall patterns shown so far are driven by the choice of skill measures or the choice of skill mixing index. To address this concern, in online Appendix A.5 and A.6, I demonstrate the robustness of these trends across various skill measures, alternative skill mixing indexes, as well as skill mixing indexes of distinct skill pairs. For example, using standardized (or broader) measures of skills, the increase in the degree of mixing of non-routine skills is 6 (or 13) percentiles from 2005 to 2018; using inverse Herfindahl-Hirschman Index, the increase in the mixing indexes of any given skill pair is above 10 percentiles during the same period. Across these checks, the qualitative picture remains consistent: there has been a notable rise in the degree of skill mixing, particularly for non-routine skills.

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Appendix Figure A5 depicts the trend of skill mixing for specific skill pairs. The findings reveal a modest increase in the mixing of routine with computer skills at 2.9 percentiles from 2005 to 2018. Conversely, the degree of mixing between routine and other non-routine skills has remained stable.

<sup>21</sup>In online Appendix Figure A3, I show employment percentages and hourly wages across various job categories in the full sample and the sample for constantly updated occupations. The hourly wage rates across the categories are fairly consistent between the full and selected samples, with minor discrepancies: the selected sample has less presence of professionals and sales occupations.

<sup>22</sup>The higher degree of volatility is partly driven by the nature of the measure and the data. The measures of skills from job postings are whether firms require a particular skill in the text of job ads, which are naturally noisier than the questions on level and importance from O\*NET. Moreover, firm job posting is more influenced by firm entry and exit patterns.

Table 2: Shift-Share Decomposition of Skill Mixing Index Changes

| Skill Groups     |                    | 7-digit Occupations |        |        | 4-digit Occupations |        |        |
|------------------|--------------------|---------------------|--------|--------|---------------------|--------|--------|
|                  |                    | total               | within | across | total               | within | across |
| Full O*NET       | RNR Skills         | 6.78                | 4.93   | 1.85   | 10.12               | 9.46   | 0.66   |
|                  | Non-routine Skills | 9.21                | 5.62   | 3.59   | 12.37               | 9.72   | 2.65   |
| Constant Updates | RNR Skills         | 5.59                | 6.73   | -1.14  | 10.09               | 10.74  | -0.65  |
|                  | Non-routine Skills | 4.05                | 5.33   | -1.29  | 11.00               | 9.69   | 1.31   |
| Lightcast        | Non-routine Skills |                     |        |        | 5.16                | 4.37   | 0.78   |

Notes: This table shows a shift-share decomposition of changes in the average level of different mixing indexes between 2005-2018 in percentile units. Specifically, for a change in the percentile of a mixing index over two periods  $t$  and  $\tau$ , its change  $\Delta T_\tau = T_\tau - T_t$  which can be decomposed to  $\Delta T = \sum_j (\Delta E_{j\tau} \alpha_j) + \sum_j (E_j \Delta \alpha_{j\tau}) = \Delta T^a + \Delta T^w$  where  $E_{j\tau}$  is employment weight in occupation  $j$  in year  $\tau$ , and  $\alpha_{j\tau}$  is the level of mixing index  $h$  in occupation  $j$  in year  $\tau$ ,  $E_j = \frac{1}{2}(E_{jt} + E_{j\tau})$  and  $\alpha_j = \frac{1}{2}(\alpha_{jt} + \alpha_{j\tau})$ .  $\Delta T^a$  and  $\Delta T^w$  then represent across-occupation and within-occupation change.

**Decomposing the Sources:** To gain a deeper understanding of the variations underlying changes in skill mixing, I undertake two exercises. First, I decompose the longitudinal changes in skill mixing in the U.S. economy, differentiating between intensive margin skill mixing index changes and extensive margin employment shifts across occupations. This analysis reveals that within-occupation skill mixing shifts play a more influential role in driving skill mixing than across-occupation employment shifts. Second, I perform a regression analysis that include extensive controls such as various skill supply measures, as well as gender, industry, and occupation fixed effects. I find that the pronounced trend of increasing skill mixing persists.

Table 2 shows a shift-share decomposition of the changes in the employment-weighted skill mixing indexes into within-occupation index shifts and across-occupation employment changes, at both 7-digit O\*NET occupation and 4-digit census occupation levels using employment weights from the OEWS and ACS respectively. I conduct the analysis both for the full O\*NET data and the subset of persistently updated occupations, alongside the Lightcast data. Irrespective of the dataset or skill groupings, within-occupation variation predominantly drives the rise in skill mixing. For example, for the 12.4 percentile increase in the mixing of non-routine skills in the full O\*NET data at 4-digit occupation level, within-occupation increase contribute 9.7 percentiles while only 2.7 percentiles stem from worker reallocation; for the 5.2 percentile increase in the mixing of non-routine skills in Lightcast data,

Table 3: Within Occupation Changes in Skill Mixing Indexes

|  | RNR Skills        | Non-routine Skills |
|--|-------------------|--------------------|
| Full O*NET                             | 0.70***<br>[0.10] | 0.71***<br>[0.09]  |
| Constant Updates                       | 0.75***<br>[0.11] | 0.65***<br>[0.11]  |
| Lightcast                              |                   | 0.33**<br>[0.15]   |
| Sex $\times$ industry $\times$ occ. FE | X                 | X                  |
| Exp. and edu. controls                 | X                 | X                  |

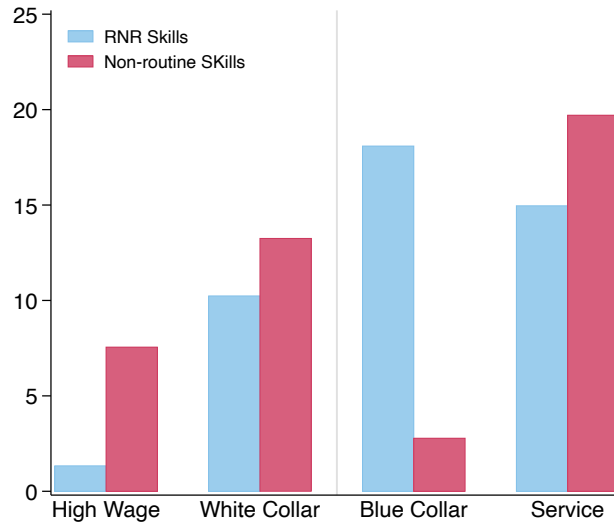
Notes: This table reports the results of regressing the mixing indexes of RNR skills and Non-routine skills in percentiles of their 2005 distributions on a time trend variable (year values) for the full ONET, Constant Updates, and Lightcast datasets combined with the ACS. See online Appendix A.1 and A.5 for the data construction. The regressions include controls for sex-industry-occupation fixed effects, as well as 5-category (no high-school, high-school graduate, some college, college graduate, post-college) education fixed effects, polynomials of years of work experience up to power 4, and the interaction of experience polynomials and education as well as gender fixed effects. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , and \*  $p < 0.1$ .

within-occupation increases account for 4.4 percentiles.<sup>23</sup> Interestingly, for the constantly updated occupations at 7 digits, worker reallocation actually contributes negatively to the increase in skill mixing. This pattern implies that for these granular occupations under regular updates, the contribution of within-occupation variation more than accounts the increase in skill mixing. At 4-digit occupations, worker reallocation does contribute positively to these increase in the mixing of non-routine skills, but the influence is still marginal compared to within-occupation variation; for RNR skills, the contribution remains negative.

An alternative explanation of the employer-side shifts in accounting for skill mixing could be that even within occupations, the supply of labor might have changed due to for example, rising human capital or labor force participation of female workers. To further shed light on the sources, Table 3 shows results from a regression of skill mixing indexes on a linear time trend (years) across combinations of O\*NET and Lightcast with the ACS data. I further control for the interaction between gender, industry, and occupation fixed effects, and I include flexible polynomials and interactions of years of education and experience. The table shows a universal increase in the degree of skill mixing at a magnitude of 0.65 to 0.75 percentiles per year using O\*NET data and 0.33 percentiles per year using Lightcast

<sup>23</sup>Online Appendix A4 shows the decomposition results using skill mixing indexes for different skill pairs and a similar result holds.

Figure 4: Skill Mixing Index Change by Occupation and Gender Groups, 2005-2018



Notes: This figure plots the changes in skill mixing indexes across different occupation groups. The units of the index changes are percentiles of their distributions in 2005. Workers are categorized into four occupation groups (High Wage, White Collar, Blue Collar, Service) following [Acemoglu and Autor \(2011\)](#). O\*NET and ACS data are combined for these figures with consistent occupation codes [Autor and Price \(2013\)](#) and developed by [Deming \(2017\)](#).

data. Moreover, this increase persists within gender, industry, and occupation groups and is unaffected by controls of worker's labor supply. This finding suggests that demand-side dynamics are playing a pivotal role in driving skill mixing.

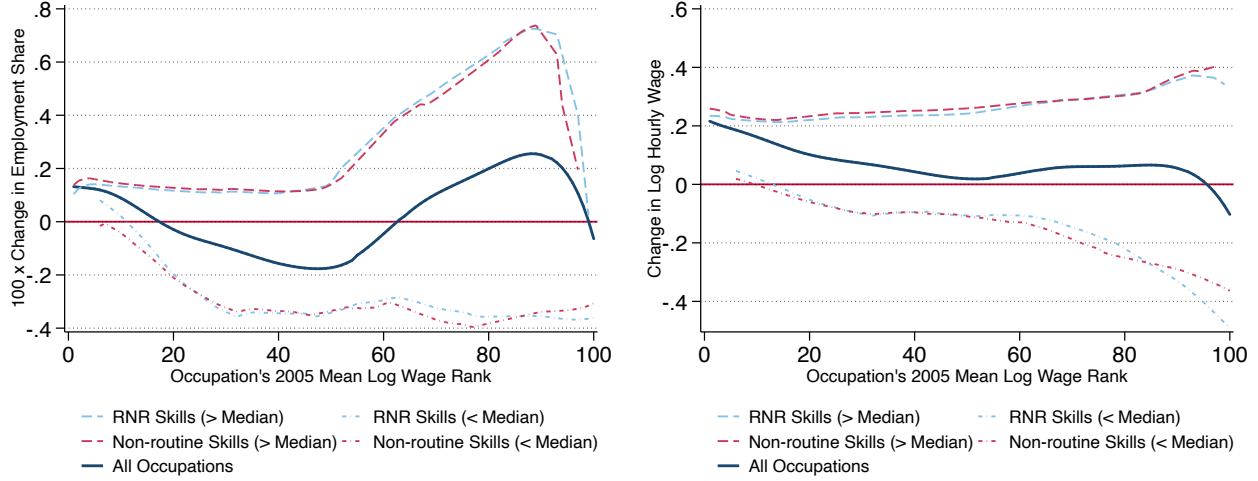
### III.C Skill Mixing Changes by Occupation

Beneath these general trends of skill mixing are diverse patterns among occupations and gender groups. Figure 4 illustrates the changes of skill mixing indexes from 2005 to 2018 across four primary occupation categories, grouped by wage levels and encompassing all non-agricultural employment in the U.S.<sup>24</sup> The units of changes are in percentiles of the skill mixing indexes' 2005 distributions, similar to the approach in Figure 3.

Considering the occupational trends, service and white-collar occupations see higher increases in the mixing of non-routine skills than other occupations. Blue-collar occupations, on the other hand, demonstrate the most pronounced rise in mixing RNR skills, with service

<sup>24</sup>The categorization into four groups is based on [Acemoglu and Autor \(2011\)](#), which is derived from 10 1-digit occupational groups that cover the entirety of US non-agricultural employment. Specifically, "High Wage" includes Managers, Professionals, and Technicians; "White Collar" comprises Office/Administrative and Sales roles; "Blue Collar" includes Production, as well as Operators/Laborers; and "Service" consists of Protective Services, Food/Cleaning Service, and Personal Care occupations.

Figure 5: Smoothed Employment and Wage Changes by Skill Percentile, 2005-2018



Notes: These figures plot the smoothed changes of share of total hours worked (Panel A) and hourly wage (Panel B) for occupations between 2005-2018. On the x-axis, occupations are ranked into 100 percentiles by the average log wages of workers in those occupations in 2005. The changes in the share of hours worked and percent wage growth are then calculated for each percentile, which fit into smoothed lines using cubic polynomial fit. Solid lines depict the smoothed employment/wage changes for all the occupations, while dashed (or dotted) lines depict the changes for occupations with above-median (or below-median) increases in the skill mixing indexes.

occupations following closely. In contrast, high-wage occupations show the least increase in skill mixing for both skill groups. This pattern highlights that the bulk of skill mixing occurs in medium- to lower-wage professions, especially within the service sector.

In online Appendix A.4, I show the decomposition of skill mixing by industries, and a similar pattern holds. The private service sector followed by retail trade and construction lead others in the growth of skill mixing, while public, social and professional services sectors demonstrate only modest increases, particularly for RNR skills.<sup>25</sup> I also show the decomposition of occupations' changing mixing of distinct skill pairs, which confirms that non-routine skills drive skill mixing in all occupations, while routine skill is only more mixed with other skills in blue-collar and service occupations.

**Distributional Implications:** One of the key structural changes in the U.S. labor market post-1980 is the pronounced job polarization or hollowing out of middle-skill employment and wage growth, due potentially to the routine-biased technological change and offshoring

<sup>25</sup>The sectors that have the least growth in skill mixing are public and education and social services. This result is consistent with Hershbein and Kahn (2018) that industries with locally consumed goods are more likely to change skill demand.

(Acemoglu and Autor 2011; Goos, Manning, and Salomons 2014). To see how much skill mixing can relate to these distributional dynamics, Figure 5 depicts the smoothed observed changes in both the share of total hours worked and log wage in 2005-2018 for occupations ranked by their hourly wage percentiles in 2005. I reconstruct these smoothed employment/wage changes for two groups of occupations: those with above-median increases in skill mixing indexes and those below the median.

Figure 5 first confirms the inverted bell shape (polarization) of observed employment and to a lesser extent, the change of wages. Furthermore, it illustrates key differences for occupations that have become more skill mixed. For occupations within similar wage ranks in 2005, those that become more mixed in skills have a higher increase in employment share and wage growth. In fact, almost the entirety of employment and wage growth is accounted for by occupations that have become more skill mixed during this period. Therefore, relating to polarization, the differential growth in employment and wage among occupations at the top and bottom end of the 2005 wage distribution are entirely accounted for by skill-mixing occupations during this period. Besides being an important phenomenon for labor market dynamics, skill mixing also provides a unified and multi-dimensional perspective of the polarization changes.

## IV Returns to Skill Mixing

In order to better understand the influence of skill mixing on workers' labor market outcomes, this section examines the wage returns associated with skill mixing in relation to occupational choices and inherent worker skills. Additionally, I discuss the return on investment for a college major with a more mixed skill set.

### IV.A Data and Measurement

To assess wage returns associated with skill mixing, I use the National Longitudinal Survey of Youth (NLSY) datasets from both the 1979 and 1997 cohorts, which offer comprehensive records of the participant's employment and educational histories. I combine these two cohorts to increase the sample size, limiting to the period from 2005 to 2019 to align with the timing of my skill mixing measurements from O\*NET as discussed in the previous section.<sup>26</sup>

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<sup>26</sup>The NLSY 1979 and NLSY 1997 are nationally representative surveys of youth, capturing data from individuals aged 14 to 22 in 1979 and 12 to 16 in 1997, respectively. During my sample period, the median age



The NLSY data are connected with O\*NET via the census occupation information in NLSY and the crosswalk formulated by [Autor and Dorn \(2013\)](#). My principal focus is the real log hourly wage, adjusted to 2013 dollars. As in [Altonji, Bharadwaj, and Lange \(2012\)](#), I trim values of the real hourly wage below 3 or above 200. The results of wage returns are robust to considering alternative sample constructions, such as excluding respondents over the age of 55 or using the unprocessed real hourly wage.

The key advantage of NLSY is that it is a worker-level panel, and also contains information on workers' pre-market abilities. This allows for the control of worker characteristics in assessing occupational wage returns to skill mixing and also facilitates the evaluation of returns to the worker-level degree of skill mixing. The selected measures of worker abilities are chosen to align well with the skill measures in O\*NET: the Armed Forces Qualifying Test (AFQT) scores represent analytical skill, the social skills measure developed by [Deming \(2017\)](#) is employed to represent interpersonal skill,<sup>27</sup> and routine skill is measured by the workers' Armed Services Vocational Aptitude Battery (ASVAB) mechanical orientation scores.<sup>28</sup> As NLSY offers scant information on workers' computer skills, I adopt the worker's occupation or college major's computer skill value in the year 2005 as a proxy for the worker's initial endowment of computer skill. Online Appendix Table B1 lists the corresponding measures.

## IV.B Wage Returns

To estimate the returns to skill mixing, I regress the log wage of workers on the levels of different skills required by their employed occupations, as well as the skill mixing indexes of these skills. Conditional on skill levels, the coefficients on skill mixing indexes identify the returns to working in occupations that are more mixed among the skills. To further examine the worker level returns to skill mixing, I add to the right-hand side the levels of the skills that workers have, and their degrees of mixing. The coefficients on worker-level mixing indexes then identify the wage premium to the mixing of worker skills conditional on occupational skill requirements. To streamline the discussion, I focus on the degree of mixing of the three

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is 37, and 91 percent of the sample is below 50.

<sup>27</sup>I use the AFQT scores constructed by [Altonji, Bharadwaj, and Lange \(2012\)](#) that are consistent across NLSY waves and account for age-at-test, test format, and other peculiarities. For interpersonal skills, I use the social skill measure developed by [Deming \(2017\)](#) assessing extraversion, which is constructed based on sociability in childhood and adulthood in NLSY79, and two questions from the Big 5 inventory in NLSY97 respectively.

<sup>28</sup>ASVAB test scores are only available for the NLSY79 survey. For NLSY97, I impute their ASVAB scores using a regression model with indicators for gender and ethnicity, and fixed effects that include age, year, census division, metropolitan area, and urbanicity.

Table 4: Return to Skill Mixing: Occupations, Workers, and Collge Majors

| Dependent: ln (hourly wage)                | (1)                 | (2)                 | (3)                 |
|--|---------------------|---------------------|---------------------|
| Mix (non-routine skills): Occ              | 0.017***<br>[0.005] | 0.015***<br>[0.005] | 0.014***<br>[0.005] |
| Mix (non-routine skills): Worker           |                     | 0.065***<br>[0.017] |                     |
| Ethnicity Gender, Age/Year, Region, Edu FE | X                   | X                   | X                   |
| Occupation FE                              | X                   | X                   | X                   |
| Worker FE                                  |                     |                     | X                   |
| Observations                               | 88,391              | 79,343              | 88,391              |
| R-squared                                  | 0.416               | 0.430               | 0.756               |

Notes: This table reports the result of estimating wage equations using pooled NLSY79&97 data for employed workers from 2005-2019. Log hourly wages are the outcome variables and person-year is the unit of observation. The occupational skill and skill mixing measures come directly from O\*NET and are merged to NLSY79&97 based on census occupation codes. The worker-level skill measures are constructed to correspond to occupation-level measures as in Table B1 and skill mixing indexes are then calculated accordingly. All measures of skill and skill mixing are normalized to have mean 0 and standard deviation 1. Ethnicity-by-gender, age, year, census region, urbanicity, and a 5-category (no high-school, high-school graduate, some college, college graduate, post-college) education fixed effects are included for all regressions, with additional fixed effects as indicated in the table. Standard errors are clustered at the individual level. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$ .

non-routine skills (analytical, computer, interpersonal), given its significant increase during the observation period as in Section III. Analysis of returns to mixing between routine and other skills as well as to individual skills is deferred to the online Appendix A.7.

Throughout all the specifications, I include ethnicity by gender, age, metropolitan status, individual year, years of education, census region, and urbanicity fixed effects. I also include occupation fixed effect to control for time-invariant differences across occupations, which allows me to focus on how the changes in skill requirements within occupations are affecting wage returns, consistent with the empirical finding that this margin is the main driver of skill mixing. Standard errors are clustered at the individual worker level to account for within-group correlation and heteroskedasticity among repeated observations at the individual level.

**Occupation and Worker Level Returns:** Table 4 shows the wage returns to skill mixing at both the occupation and individual levels, indicating a positive premium for mixing non-routine skills. Column (1) reveals that workers in occupations that become one standard deviation more mixed among analytical, computer, and interpersonal skills earn a wage premium of 1.7 percent per year, significant at the 1 percent level. In column (2), I incorporate

the mixing index of worker abilities, which enhances the precision of occupation-level wage premiums and estimates the return to skill mixing at the worker level. The results suggest that on the worker side, workers who are a standard deviation more mixed among the non-routine skills earn a wage premium of 6.5 percent. Meanwhile, the wage premium for the three non-routine skills remains at 1.5 percent per year at the occupational level. In column (3), I further restrict the analysis to within-worker variation by adding worker fixed effects; combined with the occupation fixed effects, this specification closely aligns with an AKM model.<sup>29</sup> The magnitude of the returns to skill mixing presented in column (3) is similar to that in column (2). Workers in occupations that become one standard deviation more mixed among non-routine skills experience a wage increase of 1.4 percent.

Given the positive wage premium associated with mixing non-routine skills at both occupation and worker levels, below I discuss some additional returns to skill mixing. I first examine the robustness of the wage return results. Next, I explore the returns of skill mixing in for employment and college major choices.

**Discussion of Robustness and Additional Returns:** To gain a more detailed view of the drivers of the positive premium of skill mixing, online Appendix Table A6 uses mixing indexes of skill pairs instead of a high-dimensional mixing index for non-routine skills, which indicates the positive wage returns primarily arise from the mixing of analytical with computer and analytical with interpersonal skills. Robustness checks in online Appendix A7 show that the occupational returns to skill mixing conditional on worker fixed effects are robust to alternative skill measures and indexes of mixing. Specifically, the results consistently suggest a wage premium of 1 to 2.5 percent in occupations that mix these skills. Further, in online Appendix Table A6 I show that there is also a positive employment premium for workers with a more mixed skill set: workers with a more mixed level of all the skill pairs except for routine and interpersonal are also more likely to exit unemployment.<sup>30</sup> Moreover, using the college education information from NLSY, I assess the returns of pursuing college majors

<sup>29</sup>Using within worker variation to study wage growth has been discussed and applied in i.e., Neal (1999); Gibbons et al. (2005); Lazear (2009) and Deming (2017). Choné and Kramarz (2021) found that under a worker assignment model with bundled skills, the implied wage equation also has an AKM form.

<sup>30</sup>Throughout my analysis, I classify a worker as employed if the worker earns a wage greater than zero and has held one or more jobs since the last NLSY interview, consistent with Altonji, Bharadwaj, and Lange (2012) and Deming (2017). Further, workers without a paying job for 24 months are considered to be out of the labor force.

with different degrees of skill mixing.<sup>31</sup> I calculate for workers who studied a particular major, the employment weighted average of skill intensities of their occupations in O\*NET to compute skill mixing index for that major.<sup>32</sup> Online Appendix Table A8 highlights majors based on their skill mixing levels and changes. Notably, Architecture and Environmental Design stands out in mixing the three non-routine skills, with Computer and Information Sciences, and Communications following closely. Additionally, Social Sciences and Agriculture and Natural Resources are among the top majors in mixing routine and non-routine skills. Online Appendix Table A6 column (4) quantifies workers' human capital by their majors' skill contents, and shows a positive return of around 3 percent studying a college major that is associated with a standard deviation higher mixing of non-routine skills.

## V A Directed Search Model with Occupation Design

The rich empirical findings on skill mixing pose challenges in understanding their driving forces. In what follows, I attempt to provide an overarching framework to investigate the mechanisms. For this purpose, I build a directed search model with several novel features: First, both firms and workers are represented by multi-dimensional skills; Second, firms must make decisions about occupation design before producing with workers, a process that involves a cost payable upon operating the occupation as in Acemoglu (1999);<sup>33</sup> Third, the model incorporates non-linear production and operation cost technologies. Despite the rich setup, the model remains tractable satisfying Block Recursivity as in Menzio and Shi (2011). Under these specifications, the model offers clear insights regarding changes in skill mixing, wages, and employment that are linked to the empirical findings.

### V.A Environment

**Workers:** Time is discrete. At each period, there is a unit measure of heterogeneous workers that lives forever. Each worker of type  $i$  is characterized by a vector of multi-dimensional

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<sup>31</sup>There are some inconsistencies in NLSY's field of study coding: NLSY79 uses its own major codes that contain 25 two-digit categories, while NLSY97 uses another set codes for years leading to 2010 and transfers to National Center for Education Statistics (NCES)'s 2010 College Course Map (CM10) for years after 2010. For consistency, I map the two different types of major codes in NLSY97 to the 25 two-digit major categories in NLSY79. Online Appendix Table A9 shows the crosswalk of different types of major field of study codes.

<sup>32</sup>I take the first field within a year as representing a worker's major field in the case of multiple fields.

<sup>33</sup>As such, the model incorporates directed search on both the worker and firm sides with high-dimensional heterogeneity on the two sides.

skills  $\mathbf{x}^i = \{x_1^i, \dots, x_k^i, \dots, x_K^i\} \in S \subset \mathbb{R}^{K+}$ , where  $K$  is the dimension of a closed skill space  $S$ . Workers draw their initial skill vectors at the beginning of the period from an exogenous distribution  $G(\mathbf{x})$ . Workers are risk-neutral, have linear utilities over consumption, and discount the future with a factor  $\beta$ .

**Firms:** On the other side of the market, there is a mass of risk-neutral firms each running one vacancy. Firms pay a cost  $c$  to post their vacancies across different occupations  $j = \{1, \dots, J\}$ , with  $J \geq 2$ . Each occupation is characterized in the same multi-dimensional skill space as workers' skills,  $\mathbf{y}^j = \{y_1^j, \dots, y_k^j, \dots, y_K^j\} \in S \subset \mathbb{R}^{K+}$ , which has the interpretation of a vector of skill requirements or skill importance for each of the worker skills. Firms share workers' discount factor  $\beta$ .

The production function of each worker-firm pair takes a CES form of the skill inputs of workers and skill requirements of an occupation that the firm operates:

$$f(\mathbf{x}^i, \mathbf{y}^j) = \left[ \sum_{k=1}^K (x_k^i \alpha_k y_k^j)^{\sigma^j} \right]^{\frac{1}{\sigma^j}}, \quad (2)$$

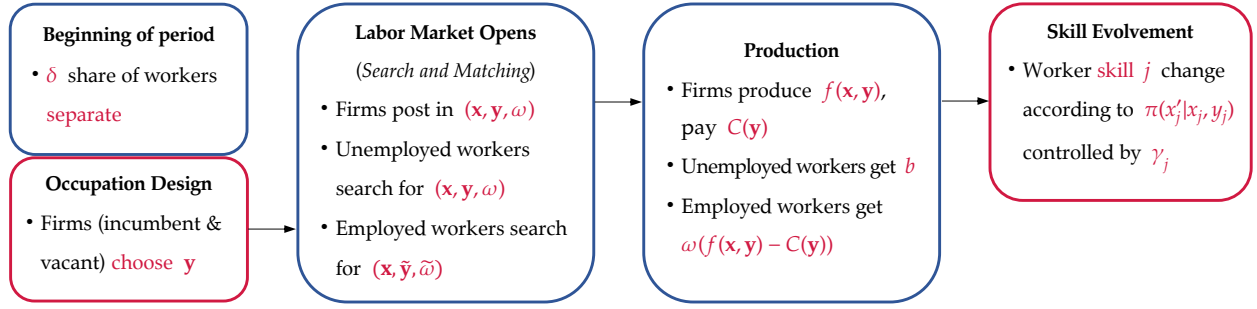
where  $\alpha_k$  controls the efficiency between worker skill and job skill requirements for a particular skill  $k$ , and  $\sigma^j$  controls the elasticity of substitution among different skills for an occupation  $j$ .<sup>34</sup> This production technology represents an extension of the production technology used in the multi-dimensional skill matching literature (i.e., [Lise and Postel-Vinay 2020](#); [Lindenlaub 2017](#); [Ocampo 2022](#)), where worker and firm attributes take a multiplicative form for their output associated with efficiency  $\alpha_k$  differing by skill, which I term as “skill efficiency”. I also allow complementarity across skills regulated by  $\sigma^j$ . When multi-dimensional skill distributions of workers and firms are considered, such a production technology gives a clear portrayal of the interaction between skill demand and supply, as well as the interaction among different skills.<sup>35</sup> Due to the one-to-one matching nature of the model, I omit the superscripts for worker and occupation skill vectors  $i$  and  $j$  in the exposition below.

A unique feature of this model is that I allow firms to actively *design* the jobs before producing with the worker ([Acemoglu 1999](#)), delivering endogenous demand specialization

<sup>34</sup>Since labor is the only input in the model, it can be understood as “equipped” labor, and occupations' skill requirement or importance  $\mathbf{y}$  takes a factor augmenting form, essentially acting as demand shifters.

<sup>35</sup>As such, the model explores both the role of changes in relative input efficiency that is the focus of task-based literature, and changes in skill complementarity.

Figure 6: Model Timing



and the degree of skill mixing. Specifically, firms with both filled and unfilled vacancies design their occupations by optimally choosing the occupational skill requirements  $\mathbf{y}$  in each period.<sup>36</sup> Such an intensity choice of skills in an occupation alters the efficiency of that skill will and essentially leads to different production technologies for that occupation, capturing the overall quality of the occupation and the optimal degree of skill mixing. In designing the occupation, both worker skill profiles and skill complementary play an important role, as firms would want to exploit what skills the workers supply given the technology.<sup>37</sup>

Nonetheless, such a job design incurs a cost  $C(\mathbf{y})$  that is payable upon producing with a worker. This cost is convex and strictly increases in the skill level that the firm chooses ( $\frac{\partial C(\mathbf{y})}{\partial y_k} > 0, \frac{\partial^2 C(\mathbf{y})}{\partial y_k^2} > 0, \forall k$ ), and represents the necessary expenses to operate an occupation for a given skill requirement choice. This cost can be understood as an operation cost as in [Hopenhayn \(1992\)](#) that increases in the skill level of the occupation.<sup>38</sup>

**Labor Market:** There is a continuum of submarkets that are indexed by worker and occupation skill profiles  $(\mathbf{x}, \mathbf{y})$ , as well as the share of worker-firm surplus  $\omega$  that firms promise to workers.<sup>39</sup> Workers with skill profile  $\mathbf{x}$  direct their search towards different occupations and

<sup>36</sup>This feature is consistent with the empirical finding that both incumbent jobs and vacancies have changing degrees of skill mixing.

<sup>37</sup>For example, in designing an occupation (i.e., salespersons) for lower-skill workers who might have a greater supply of interpersonal than analytical skill, firms may want interpersonal skill to be more intensively used to take advantage of the labor supply; on the contrary, if online marketing has increased the complementarity between analytical and interpersonal skills, firms may adjust accordingly to let the analytical skill to be more intensive. In equilibrium, this endogenous intensity will depend on other forces in the model.

<sup>38</sup>For example, to design and operate an occupation that employs high-skill workers, a firm will need to incur higher expenses in terms of better offices and equipment rentals.

<sup>39</sup>This arrangement can be considered as an employment contract simply specifies the surplus share  $\omega$  promised to the worker contingent on the state for the current period, as well as the continuation value of the match in the subsequent period (see next section). The contract is assumed to be fully committed by both the workers and firms.

surplus shares, meeting one vacancy at a time. Matching between workers and firms is frictional and is regulated by a standard constant to scale matching function. Under this directed search environment, each submarket has a separate tightness (vacancy-unemployment ratio), denoted by  $\theta(\mathbf{x}, \mathbf{y}, \omega)$ . In each submarket, workers find job with probability  $p(\theta(\mathbf{x}, \mathbf{y}, \omega))$  and firms fill the vacancy with probability  $q(\theta(\mathbf{x}, \mathbf{y}, \omega)) = p(\theta(\mathbf{x}, \mathbf{y}, \omega)) / \theta(\mathbf{x}, \mathbf{y}, \omega)$ .<sup>40</sup>

The timing of the model evolves as follows. At the beginning of each period, a fraction  $\delta$  of worker-firm pairs separate exogenously. Before the labor market opens and unlike standard search models, firms of both unposted vacancies and incumbent jobs will first need to design the occupations at this stage. The labor market that is comprised of different submarkets then opens, and both unemployed and employed search for unfilled vacancies and form matches with firms under the constant return to scale matching technology. The labor market then closes, firms produce the output and pay the occupation operation cost as well as the wage, which is a share of the surplus. Unemployed workers receive a transfer with a value of  $b$ . Lastly, workers are able to learn by doing, and their skills evolve according to the Markov process depending on their employment status, as described below.

**Aggregate and Individual State:** The aggregate state of the economy is the distribution of workers across employment status, skill profiles, occupational skill requirements, and surplus shares, denoted as  $\psi \in \Psi$ . I subsume aggregate state in the exposition of model equilibrium in the next section and show that in fact, the model equilibrium is independent of the aggregate state.

Nonetheless, in the model, I allow workers to learn on the job, and their subsequent skill profiles are contingent upon their current employment status, as in [Lise and Postel-Vinay \(2020\)](#). Specifically, considering each skill  $j$  in the worker's skill profile  $\mathbf{x}$  as an element of the finite set  $S$ , the evolution of this skill follows a Markov process  $\pi(x'_j | x_j, y_j)$ , conditional on the worker's current skill level and employed occupation. If a worker is matched with an occupation that requires a skill level exceeding his or her own ( $x_j < y_j$ ), the worker's skill  $j$  will adjust upward in the next period:  $x'_j > x_j$ , and the inverse applies for a worker whose skill is lower than the requirements of their current occupation. The probability, and thereby the speed of skill adjustment, is contingent upon the specific skill  $j$ . For unemployed workers, they are treated such that their present occupation demands a zero level for all skills. The

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<sup>40</sup>Functions  $p$  and  $q$  also satisfy usual regularity conditions: twice continuously differentiable;  $p'(\theta) > 0, p''(\theta) < 0, p(0) = 0; q'(\theta) < 0, q''(\theta) > 0, q(0) = 1$ .



calibration of the skill adjustment probability is discussed in Section VI.

## V.B Model Equilibrium

I will now characterize the optimal strategies for workers' job search and firms' job creation and continuation. The value functions for workers are described at the point of the production stage when the labor market comes to a close, while for firms I also consider the job design stage before the labor market opens.

**Worker's Problem:** Let  $U(\mathbf{x})$  denote the value of being unemployed and searching for a job for worker  $\mathbf{x}$ . Similarly, let  $W(\mathbf{x}, \mathbf{y}, \omega)$  be the total discounted returns from holding a job of skill requirements  $\mathbf{y}$  and surplus share  $\omega$  at time  $t$ . These values can be written as:

$$\begin{aligned}
U(\mathbf{x}) &= b + \beta E \left\{ \max_{\mathbf{y}', \omega'} p(\theta(\mathbf{x}', \mathbf{y}', \omega')) W(\mathbf{x}', \mathbf{y}', \omega') \right. \\
&\quad \left. + [(1 - p(\theta(\mathbf{x}', \mathbf{y}', \omega')))] U(\mathbf{x}') \right\} \\
W(\mathbf{x}, \mathbf{y}, \omega) &= \omega(f(\mathbf{x}, \mathbf{y}) - C(\mathbf{y})) + \delta U(\mathbf{x}') \\
&\quad + \beta(1 - \delta) E \left\{ \max_{\tilde{\mathbf{y}}', \tilde{\omega}'} p(\theta(\mathbf{x}', \tilde{\mathbf{y}}', \tilde{\omega}')) W(\mathbf{x}', \tilde{\mathbf{y}}', \tilde{\omega}') \right. \\
&\quad \left. + [(1 - p(\theta(\mathbf{x}', \tilde{\mathbf{y}}', \tilde{\omega}')))] W(\mathbf{x}', \mathbf{y}', \omega) \right\}
\end{aligned} \tag{3}$$

Unemployed workers gain a utility  $b$  through the current period's transfer. In the subsequent period, their skills may transition to  $\mathbf{x}'$ , which are likely to depreciate due to their unemployed status. Meanwhile, within the submarket that aligns with their skill profiles, workers engage in the search for vacancies that span a variety of occupations  $\mathbf{y}$  and surplus shares  $\omega$ , looking for the highest continuation value. In choosing  $\mathbf{y}$  and  $\omega$ , workers face the tradeoff between the value of employed and the success probability of a match  $p(\theta(\mathbf{x}', \mathbf{y}', \omega'))$ , both of which hinge on the occupation and surplus share that the workers target. Should the match prove successful, the workers enjoy the continued value that employment offers; otherwise, their status of unemployment persists.

Workers currently employed in a firm characterized by  $(\mathbf{y}, \omega)$  receive a wage equivalent to the share  $\omega$  of the output from their match. When the subsequent period arrives, they face a probability  $\delta$  of an exogenous separation, in which case they become unemployed with a value  $U(\mathbf{x}')$  and engage in job search immediately. Employed workers perform on-the-job

searches in their current match for new occupations and surplus shares  $(\tilde{\mathbf{y}}', \tilde{\omega}')$ , on the premise that there is a positive probability  $p(\theta(\mathbf{x}', \tilde{\mathbf{y}}', \tilde{\omega}'))$  that the continuation value from the new match offers exceeds that of the original firm. In the absence of such possibilities or if the transition is not successful, the worker remains with the initial firm.

**Firm's Problem:** Consider a firm running occupation  $\mathbf{y}$ , offering surplus share  $\omega$ , and employing worker  $\mathbf{x}$ . Let  $J(\mathbf{x}, \mathbf{y}, \omega)$  denote the total discounted profits to this firm:

$$J(\mathbf{x}, \mathbf{y}, \omega) = \max_{\mathbf{y}} (1 - \omega)(f(\mathbf{x}, \mathbf{y}) - C(\mathbf{y})) + \beta(1 - \delta)E\left\{(1 - p(\theta(\mathbf{x}', \tilde{\mathbf{y}}', \tilde{\omega}'))J(\mathbf{x}', \mathbf{y}', \omega))\right\} \quad (4)$$

In the current period, firms receive a portion  $(1 - \omega)$  of the worker-firm surplus, after paying the workers their wages. In the production process, firms also need to cover the occupation operation cost  $C(\mathbf{y})$ , which depends on the skill levels required by the occupation that the firms designed. The labor market operates under free entry for firms, hence, maintaining a vacancy bears no value. In the case of exogenous separation, or with a probability  $p(\theta(\mathbf{x}', \tilde{\mathbf{y}}', \tilde{\omega}'))$  that the worker finds another job at an optimal occupation  $\tilde{\mathbf{y}}'$  and surplus share  $\tilde{\omega}'$  through on-the-job search, the firm accrues no profits. In the case where the match persists, the firm continues to acquire discounted profits from the match.

$$c = \beta E\left\{q(\theta(\mathbf{x}, \mathbf{y}, \omega))J(\mathbf{x}, \mathbf{y}, \omega)\right\} \quad (5)$$

The free-entry condition further highlights firms' choice of optimal degree of skill mixing and the tradeoff that agents face in the model. Prior to the opening of the labor market in each period, firms of incumbent jobs and unfilled vacancies re-design the occupation, taking into consideration the overall production technology and worker skills within their respective submarkets.<sup>41</sup> Given that the value of a vacancy is zero, firms will opt for an optimal skill mixing that equates the firm's anticipated discounted profits to the cost of vacancy posting as in equation (5). This condition implicitly pins down market tightness  $\theta(\mathbf{x}, \mathbf{y}, \omega)$ . If an occupation for a specific worker type becomes more profitable, the number of vacancies posted will increase, leading to a rise in market tightness but at the same time a reduction in

<sup>41</sup>Considering that incumbent firms and new entrants utilize identical production technologies and confront the same worker skills within each submarket, their choices align.

the job-filling rate.<sup>42</sup>

The free entry condition also reflects the tradeoff faced by workers. Since workers receive the remaining surplus claimed by the firms, in markets with higher job-finding probabilities (i.e., tighter markets), the value of employment is likely to be lower. Workers' job-finding probability also feeds back to firms' discounted profits through worker on-the-job search and the chance that the firm attracts other employed workers.

**Block-recursive Equilibrium:** Despite the multi-dimensional skill setup, the model still achieves analytical tractability by relieving the dependence on the entire distribution of agents across aggregate states in characterizing agents' value functions and market tightness. Such a convenient feature was coined as "block-recursive" in [Menzio and Shi \(2010\)](#) and [Menzio and Shi \(2011\)](#) for a broad range of directed search models.<sup>43</sup> This is a result of two features of the model. First, as search is directed and workers choose optimally the occupation and surplus share, their life utility does not depend on their outside options, and workers do not need to forecast the wage depending on the entire distribution of employment. Second, there are separate markets for workers of different profiles, and workers search for jobs within their own submarket, in which firms carry different occupations. This additional degree of separability implies that the market tightness of a submarket is independent of the worker distribution in other markets, relieving the burden of workers and firms to forecast other markets in making their decisions.<sup>44</sup> In online Appendix [B.2](#), I formally define a Block-recursive equilibrium for the economy and show its existence and uniqueness.

**Skill Mixing, Wages and Employment:** The model yields several predictions regarding changes in skill mixing, wages, and employment that align closely with the empirical findings detailed in Sections [III](#) and [IV](#). These predictions emphasize the role of skill complementarity within a production framework that features indivisible skills. The formal propositions and

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<sup>42</sup>As in other directed search models, only a portion of submarkets may open in equilibrium, depending on firm's value and corresponding market tightness in different markets

<sup>43</sup>Block recursivity allows not only analytical tractability but also enables standard numerical techniques to solve the model. The framework considered in this paper involves more heterogeneity and requires an additional degree of directness, as discussed.

<sup>44</sup>Such additional directness implies that, i.e., computer scientists only confront other computer scientists in job search, while sales clerks only compete with other sales clerks. In reality, the degree of separability will depend on specific occupations and the overall economic condition. As reported by [Osberg \(1993\)](#), search directedness is procyclical and is higher when the market is tight. In bringing the model to the data, I use economic recovery periods and more coarse occupations to be consistent with the model.

proofs of these outcomes can be found in the online Appendix B.1, and a concise discussion is provided here.

Under the production technology described in equation (2) and the occupational design cost  $C(\mathbf{y})$  that is strictly increasing and convex in skill requirements, increased complementarity in production or a higher degree of increasing marginal costs leads firms to find it more profitable to employ a mixture of different skills rather than specializing in one, leading to increased skill mixing. Additionally, the supply of skills by workers influences these outcomes: as workers supply a more diverse set of skills, it becomes more efficient to design jobs that require this mix of skills. In terms of wages and employment, if skills become more complementary in production or less costly to combine, the output of the worker-firm match rises, leading to wage increases. Through the free entry condition specified in equation (5), this increased joint worker-firm value results in a tighter labor market and an elevated job-finding probability for unemployed workers. I quantitatively calibrate the model and test these predictions in the next section.

## VI Quantitative Analysis

In this section, I calibrate the model to evaluate the quantitative importance of different channels contributing to the phenomenon of skill mixing and explore implications for wage and employment. I first describe data construction and measurement, followed by a discussion of calibration strategy, and estimated parameters. I then perform counterfactual analyses to decompose the shifts in skill mixing as well as employment and wage distributions.

### VI.A Measurement and Calibration

**Data and Measurement:** I apply the same combination of NLSY 79 & 97 along with O\*NET data as in Section IV to calibrate the model. The datasets provide counterparts to the model variables: the worker abilities correspond to worker skills ( $\mathbf{x}$ ) as discussed in Section IV, while O\*NET provides occupational skill requirements ( $\mathbf{y}$ ). NLSY also provides information on employment distribution and wage levels. The model is calibrated to two periods of data from the early 2000s to late 2010s separately, which coincides with a substantial shift in skill mixing and abstracts from the great recession. Specifically, the steady state of the model is fitted to the data from 2005–2006 and 2016–2019 to ensure comparability of sample

sizes across these two periods, and I restrict to those workers with information on their skills.<sup>45</sup> Finally, for both worker and job skill profiles, I consider the same set of skills (analytical, computer, interpersonal, routine) as in Section III and IV, only that I combine analytical and computer skills to have a three-dimensionality feasible for quantitative analysis ( $K = 3, k = \{\text{analytical/computer } (a), \text{interpersonal } (p), \text{routine } (r)\}$ ).<sup>46</sup>

Considering the potential influence of skill supply variation on skill mixing, I calibrate two key aspects of it. First, the distribution of worker skills  $G(\mathbf{x})$  varies *across* the two data periods to align with the workers' choice of occupations and college majors (if attended) as in the NLSY data, following Lise and Postel-Vinay (2020). Specifically, a worker accumulates  $\gamma_j$  times the gap between the worker's endowment and an occupation's or college major's requirement of skill  $j$  in each year, with the value of  $\gamma_j$  depending on upward or downward accumulation.<sup>47</sup> Second, the Markov process  $\pi(x'_j|x_j, y_j)$  for worker skill adjustment *within* a model steady state is calibrated to make a worker's skill level adjust upward or downward in the next model period if the worker's occupation requires a higher or lower skill level than the worker has. The Markov adjustment probability is equal to the annual skill adjustment rates  $\gamma_j$  scaled by the gap between the worker's skill set and the occupation's demands.<sup>48</sup> Online Appendix B.4 provides further details of the skill supply calibration.

To map occupations and workers in the model to the data, I set grid points as follows. I classify occupations into high- and low-wage, as in Section IV, with the former group including managerial, professional, and white-collar occupations, and the latter blue-collar and service occupations. The grid point for an occupation's requirement of a skill  $y_j$  is set such that moving up one grid corresponds to 50 percent of the average observed value of  $y_j$

<sup>45</sup>NLSY 1997 was conducted annually during 2005-2006, but only biannually in 2016-2019, so does NLSY 1979 for the later period. The same sizes for the two selected periods are 30,654 and 43,340 respectively.

<sup>46</sup>As I merge analytical and computer skills into one for calibration using their average values, I denote this combined skill as "analytical/computer".

<sup>47</sup>The speed of skill adjustment  $\gamma_j$  is calibrated using the estimates from Lise and Postel-Vinay (2020) as in online Appendix Table B1. Workers' skills can be lost when not employed but cannot be lower than their initial endowments. For skill changes while in school, I specify that workers spend on average 3 years learning the skills of their majors.

<sup>48</sup>Specifically, the Markov probability of upward adjustment is determined by:  $\frac{x_j^{up} - x_j}{y_j - x_j} \mathbf{1}(x_j^{up} < y_j) \times \gamma_j^{up}$ , and of downward adjustment is given by:  $\frac{x_j^{down} - x_j}{y_j - x_j} \mathbf{1}(y_j < x_j^{down}) \times \gamma_j^{down}$ . Here,  $x_j$  represents the current grid value of worker skill  $j$ , while  $x_j^{up}$  or  $x_j^{down}$  denotes the value of worker skill  $j$  up or down a grid, respectively. The indicator variables  $\mathbf{1}(y_j < x_j^{down})$  or  $\mathbf{1}(x_j^{up} < y_j)$  evaluates whether the skill  $j$  grid value of the worker's current employed occupation is greater or smaller than the value of the worker's skill  $j$  grid. This means that a worker will only adjust up or down a grid if the occupation's skill is larger or smaller than the corresponding up or down grid value for the worker's skill.

for that occupation.<sup>49</sup> On the worker side, workers are classified based on their skill level  $x_j$ : those with skills above the average are deemed high type and assigned the mean of the above-average values; those below the average are considered low type and assigned the mean of the below-average values.<sup>50</sup>

**Functional Forms:** The model is parameterized as follows. The multi-dimensional skill production function is defined as in equation (2), which accommodates cross-skill complementarity controlled by  $\sigma$  and enables a sensible interaction between skill demand and supply, in line with the multi-dimensional matching literature (i.e., [Lise and Postel-Vinay 2020](#); [Lindenlaub 2017](#); [Ocampo 2022](#)). I allow a flexible form of occupation operation cost  $C(\mathbf{y})$  as in equation (6), where  $\rho$  regulates the convexity of the occupation operation cost function with respect to skill requirements, and  $\tau$  governs the scale of the cost.<sup>51</sup>

$$C(\mathbf{y}) = \tau \left[ \sum_{k=1}^K (y^k)^\rho \right] \quad (6)$$

The matching function assumes a standard Cobb-Douglas form,  $M(s, v) = \mu s^\eta v^{1-\eta}$ , indicating that  $\eta$  is the elasticity of matches concerning total search effort, and  $\mu$  is the matching efficiency. This function form leads to the job finding rate being  $p(\theta) = \mu \theta^{1-\eta}$  and the vacancy filling rate being  $q(\theta) = \mu \theta^{-\eta}$ .

**Calibration Strategy:** The calibration of parameters falls into three categories. For parameters that regulate the search environment, I follow closely the conventions of the search and matching literature. I rely on estimates from the multi-dimensional matching literature for the skill adjustment and skill efficiency parameters. Lastly, for the parameter regulating elasticity of substitution across skills and relating to costs, I estimate them internally through Simulated Methods of Moments (SMM).

The model period is a year. Given that all agents are risk-neutral, the discount rate  $\beta$  is assigned a value of 0.96, corresponding to an annual interest rate of 4 percent. The job separation rate  $\delta$  is set at 10 percent as in [Shimer \(2005\)](#). For employed workers, their share of

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<sup>49</sup>As the model calibration uses data of two periods with a consistent grid, I determine grid points by averaging the occupation's median values across both periods.

<sup>50</sup>With three chosen skills, there are 8 worker types in the model.

<sup>51</sup>Besides technical convenience, the functional form (6) also implies that for a given cost, firms need to trade off the choice of altering different skill intensities.

Table 5: Moments and Model Match

|  | First Period |       | Second Period |       |
|--|--------------|-------|---------------|-------|
|  | Data         | Model | Data          | Model |
| <b>Worker moments</b>                    |              |       |               |       |
| Relative wage of high type               |              |       |               |       |
| Analytical/computer                      | 1.46         | 1.56  | 1.60          | 1.62  |
| Interpersonal                            | 1.05         | 1.13  | 1.20          | 1.27  |
| Routine                                  | 1.12         | 1.18  | 0.92          | 1.40  |
| Wage return of skill mixing (untargeted) | 0.07         | 0.04  | 0.07          | 0.04  |
| Unemployment Rate                        | 0.05         | 0.09  | 0.04          | 0.07  |
| <b>Occupation moments</b>                |              |       |               |       |
| Relative wage of high-wage               | 1.30         | 1.22  | 1.56          | 1.40  |
| Corr. wage & abilities (low-wage)        | 0.23         | 0.25  | 0.49          | 0.52  |
| Corr. wage & abilities (high-wage)       | 0.35         | 0.45  | 0.60          | 0.61  |
| Employ. share (low-wage)                 | 0.43         | 0.54  | 0.37          | 0.28  |
| Employ. share (high-wage)                | 0.57         | 0.46  | 0.63          | 0.72  |
| 100 $\times$ Skill mixing (low-wage)     | 97.54        | 97.65 | 98.96         | 99.10 |
| 100 $\times$ Skill mixing (high-wage)    | 95.74        | 95.71 | 94.12         | 97.93 |

Notes: This table reports the average values of the targeted moments both in the data and through model simulation. The data used for the moment calculation and for SMM estimation are two periods of pooled NLSY79&97 for employed workers: period 1 from 2005–2006 and period 2 from 2016–2019. Two types of moments are included. The worker moments include the relative wage of high type workers as well as the unemployment rate. The occupation moments include the relative wage of high skill occupations, the employment share and the skill mixing index of RNR skills in low and high skill occupations.

output  $\omega$  is set at 0.6, mirroring the labor share of GDP in 2005. For unemployed workers, the unemployment benefits  $b$  is set at 41.5 percent of the earning loss of lowest-paid occupations, following the estimates of [Braxton, Herkenhoff, and Phillips \(2020\)](#). The elasticity of the matching function  $\eta$  is set at 0.5 as is standard, and the matching efficiency  $\mu$  is set to 0.65, as in [Mercan and Schoefer \(2020\)](#). Table 6 panel A summarizes these externally calibrated parameters.

I calibrate the speed of skill adjustment ( $\gamma_j$ ) and the skill efficiencies ( $\alpha_k$ ) following [Lise and Postel-Vinay \(2020\)](#) and [Lindenlaub \(2017\)](#), as detailed in Table 6 panels B and C. The calibration aligns the adjustment of analytical/computer, interpersonal, and routine skills with the cognitive, interpersonal, and manual skills detailed in [Lise and Postel-Vinay](#)



Table 6: Parameter Estimates

| Parameter                                   | Description  | Value      |            |
|---|--|------------|------------|
| A. Externally calibrated – search           |  |            |            |
| $\beta$                                     | Discount Rate  | 0.96       |            |
| $\delta$                                    | Job separation rate                                      | 0.10       |            |
| $\omega$                                    | Worker share of surplus                                  | 0.60       |            |
| $b$   | Unemployment benefit as share of output                  | 0.42       |            |
| $\eta$                                      | Elasticity of the matching function                      | 0.50       |            |
| $\mu$                                       | Matching efficiency                                      | 0.65       |            |
| B. Externally calibrated – skill adjustment |  | (Upward)   | (Downward) |
| $\gamma_a$                                  | Annual adjustment speed of analytical/computer skill     | 0.36       | 0.10       |
| $\gamma_p$                                  | Annual adjustment speed of interpersonal skill           | 0.05       | 0.00       |
| $\gamma_r$                                  | Annual adjustment speed of routine skill                 | 1.00       | 0.36       |
| C. Externally calibrated – skill efficiency |  | (Period 1) | (Period 2) |
| $\alpha_a$                                  | Skill efficiency of analytical/computer skill            | 0.63       | 0.95       |
| $\alpha_p$                                  | Skill efficiency of interpersonal skill                  | 0.05       | 0.08       |
| $\alpha_r$                                  | Skill efficiency of routine skill                        | 0.14       | 0.06       |
| D. Internally estimated                     |  | (Period 1) | (Period 2) |
| $\sigma^{low}$                              | Elasticity parameter of skills in production (low-wage)  | 1.00       | 0.30       |
| $\sigma^{high}$                             | Elasticity parameter of skills in production (high-wage) | 0.58       | 0.30       |
| $\tau$                                      | Scaler of occupation operation cost                      | 1.31       | 1.96       |
| $\phi$                                      | Convexity of occupation operation cost                   | 2.74       | 4.98       |
| $c$   | Vacancy posting cost as a share of output                | 0.68       | 0.82       |

Notes: This table shows the exogenously calibrated as well as internally estimated parameters. The data used for the internal estimation are two periods of pooled NLSY79&97 data for workers with information on their pre-market abilities. Period 1 is from 2005–2006 and period 2 from 2016–2019.

(2020).<sup>52</sup> Analytical/computer skill adjusts upward two times faster than it depreciates, while interpersonal skill changes slowly in both directions. Routine skill adjusts most rapidly in either direction. I linearly interpolate [Lindenlaub \(2017\)](#)’s estimates of skill efficiencies for my period of analysis.<sup>53</sup> Between 2005 and 2018, the productivity of analytical/computer and interpersonal skills in matching worker abilities with job skill requirements increased by about 60 percent. In contrast, the productivity of routine skills saw a decrease of more than 50 percent.

For the internal estimation, the SMM procedure initiates by determining the agents’

<sup>52</sup>[Lise and Postel-Vinay \(2020\)](#)’s estimates are presented on a monthly basis, which I have adjusted to an annual scale.

<sup>53</sup>[Lindenlaub \(2017\)](#)’s estimates span from 1990 to 2010.

steady-state policies based on the model's parameters, simulating a cohort of workers. Each simulation results in a distribution of employment statuses and corresponding labor market outcomes. The parameters are then estimated minimizing the distance between simulated and empirical moments.<sup>54</sup> The estimation targets 11 moments as shown in Table 5 for both periods of data that include: i) the relative wage of the high-type worker for each skill; ii) the unemployment rate; iii) the relative wage of high-skill occupation; iv) the within-occupation correlation between wages and worker abilities; v) the share of employment across occupations; and vi) the skill mixing index of RNR skills of occupations.<sup>55</sup> The model does a decent job of matching all the moments.

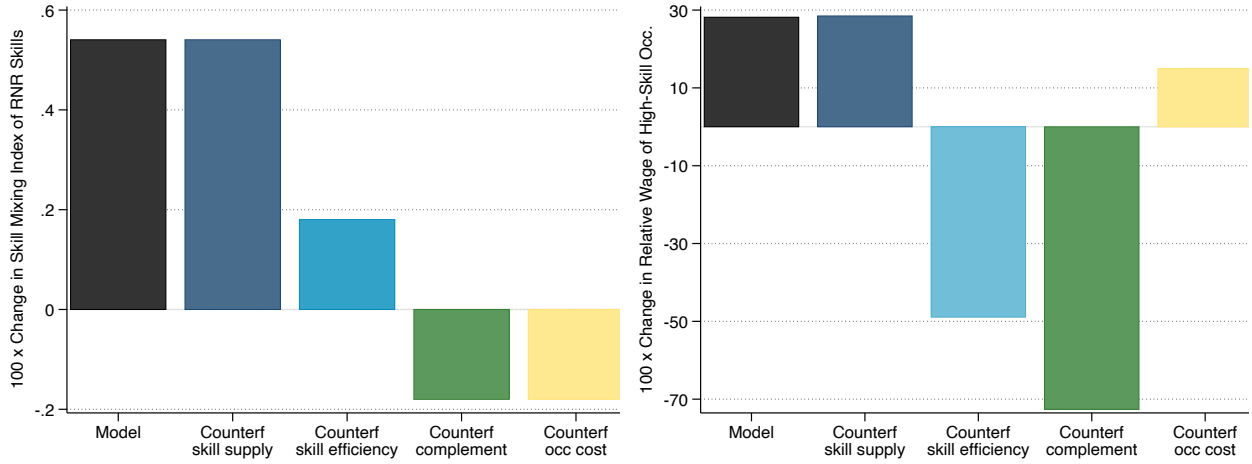
The model parameters are jointly identified from the moments, for which a concise summary of the key information for identification is given below with a more detailed discussion in online Appendix B.3. I first identify the complementarity parameter of skills in production  $\sigma$  targeting the correlation of within-occupation relative wages and worker skills. The cost parameter  $\rho$  is then estimated by leveraging the firm's optimization conditions in skill mixing. Conditional on parameters estimated at the production side, the employment distribution and relative wages further aid in estimating  $\tau$ . Lastly, the unemployment rate disciplines the vacancy posting cost.

Table 6 panel D presents the internally estimated parameters, which indicate considerable technological shifts between the two periods. For the initial period, the estimated  $\sigma$  is 1 and 0.6 for low- and high-wage occupations respectively, suggesting that skills are substitutable in production. In the late 2010s, there was a significant rise in skill complementarity in production, reflected in the reduction of  $\sigma$  to 0.3 for both types of occupations. Firms also encounter rising costs of skills in occupation operation, as reflected in the increase of both the scale and the convexity of the cost function ( $\tau$  and  $\rho$ ). As discussed in Section VI, this increased complementarity as well as the cost of skills intensifies firms' incentives to mix skills. Lastly, the cost of posting vacancies has risen slightly post-2010s.

<sup>54</sup>Online Appendix B.5 provides further details on the numerical implementation.

<sup>55</sup>All moments are directly computed from the two periods of data from NLSY, except for unemployment, for which I use the statistics from the Bureau of Economic Analysis (BEA) to avoid the age composition effects present in NLSY. For example, by the late 2010s, a larger segment of the NLSY 79 cohort was above age 50, making them more likely to be out of the labor force. Additionally, the unemployment rate from NLSY, derived from the number of jobs held since the last survey, averages 9 percent, notably higher than BEA data. However, this decision primarily affects vacancy posting cost parameters.

Figure 7: Model Counterfactual



Notes: These figures plot the model generated changes in skill mixing in low-skill occupations (panel 1) and changes in relative wage of high-skill occupation (panel 2). Different model channels are shut down individually by eliminating the changes in calibrated values to highlight the contribution of each channel. The full model has all the model features. The values of skill complementarity in production, cost of skills in occupation operation, efficiency differential, and vacancy posting cost across the two periods are shown in Table 6. Worker skill supply distribution variation across the periods are calibrated according to Table B1.

## VI.B The Drivers of Skill Mixing and Implications for Wages and Employment

In this section, I employ the model to perform a series of counterfactual experiments to assess the relative significance of each model channel in explaining the shifts in the degree of skill mixing. Additionally, I evaluate the influence of these channels on the changes in earnings and employment distributions. Specifically, I focus on the roles of changes in skill supply, skill efficiencies, skill complementarity in production, occupation operation cost, and vacancy posting cost in generating moment variations that align with the data. To gauge the importance of each of these channels, I individually suspend the shifts in parameter values associated with each of these channels and observe the impact on different outcomes.

**Counterfactual Skill Mixing:** I begin by assessing how different channels contribute to the growth in skill mixing within low-skill occupations, which has been noticeably observed in the data.<sup>56</sup> The first panel of Figure 7 illustrates that the full model predicts a rise in

<sup>56</sup>I focus on changes within-occupation for my counterfactual analysis, primarily because this appears to be the main area where skill-mixing changes occur, as shown in Section IV. Additionally, in the quantitative part of this study, the number of occupations is far fewer than in the actual data, leading to more fluctuations in

skill mixing within low-skill occupations over the two periods. In the absence of changes in the supply of worker skills across these periods, the predicted increase in skill mixing remains unchanged. On the other hand, if we ignore changes in skill efficiency changes, the predicted increase in skill mixing decreases by nearly two-thirds, implying the importance of skill efficiencies in the increase in skill mixing. This result arises because, as the efficiency of routine skill declines and of interpersonal and analytical/computer skills improves, firms are incentivized to redesign occupations. Specifically, they shift toward analytical/computer and interpersonal skills away from routine skill, which was predominantly demanded in low-skill occupations in the early 2000s, leading to an increased degree of skill mixing.

The subsequent counterfactual results indicate that the rise in the complementarity of skills in production and occupational operation costs are even more important determinants of skill mixing. First, if we suppress the increase in skill complementarity, the growth in skill mixing becomes negative. Similarly, if we eliminate the changes in occupational operation cost, the growth in skill mixing becomes negative. These experiments underscore that the increase of skill complementarity and occupational operation cost is the central force driving the increase in skill mixing over the two periods, consistent with the predictions in Section V.<sup>57</sup> Lastly, the costs associated with posting job vacancies appear to have little impact on skill mixing.

**Wage and Employment Effects:** I proceed to investigate how the same model channels that influence skill mixing also impact wage and employment distribution. The second panel of Figure 7 illustrates the changes in the relative wage between high-skill and low-skill occupations from the early 2000s to the late 2010s, with the model predicting a 28 percentage point increase. As observed with skill mixing, variations in worker skill supply and vacancy posting cost appear to have minimal effects. In contrast, skill efficiencies emerge as a key driver; without its shift, the relative wage of high-skill occupations would have declined by nearly 50 percentage points.<sup>58</sup>

The increasing complementarity of skills in production stands out as an even more employment shares. The subsequent results are qualitatively similar for high-skill occupations, as I show in the online appendix B.6.

<sup>57</sup>Online Appendix B.6 investigates the implications of  $\tau$  and  $\phi$  individually for skill mixing changes and results show that  $\tau$  plays a bigger role.

<sup>58</sup>This result is attributable to the fact that as skill efficiency increases, the absolute skill difference between high- and low-type workers grows, leading to higher wage gains in high-skill occupations that are more likely to employ high-type workers.

important driver of the relative wage gain in high-skill occupations. The counterfactual analysis assessing the influence of this increase in skill complementarity in Figure 7 is conducted by simulating a scenario where the rise in complementarity is half of what was estimated.<sup>59</sup> Under this condition, the relative wage for high-skill occupations would have declined by over 70 percentage points. Additionally, the increase in occupation operation costs also contributes to the wage dynamics, although to a lesser extent. If these costs were to rise at half the rate observed in the estimation, the relative wage in high-skill occupations would have seen an increase of just 15 percentage points, half the rate predicted by the full model.

In online Appendix B.6, I detail the influence of different model channels on employment gains in high-skill occupations across the two periods. The effects of evolving skill efficiencies and skill complementarity on employment closely parallel their impacts on wages. In contrast, rising occupation operation costs have compressed the employment growth in high-skill occupations. In summary, the counterfactual analysis underscores the significance of the growing complementarity of skills in production, the changing cost of skills for occupation operation, and shifts in skill efficiency as primary drivers behind the observed changes in skill mixing and the increases in wage and employment gains in high-skill occupations.

## VII Conclusion

Skills are inevitably embedded in workers and understanding the demand for skill *mixtures* is important in studying the dynamics of the labor market. I present a rich set of empirical findings on the phenomenon of “skill mixing”, and show that between 2005-2018, there has been a sizable growth in the degree of mixing, particularly for non-routine skills such as analytical, computer, and interpersonal skills. To understand the heterogeneous within-occupation variation in skill mixing of different occupations, I provide an integrated framework incorporating multi-dimensional skill directed search and endogenous occupation design. Bringing the model to the data, I estimate parameters that are important in understanding the interaction among skills and show that technological change is the main driver of skill mixing.

The phenomenon of skill mixing brings forth very different policy implications for worker

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<sup>59</sup>I reduce only half of the complementarity increase for the counterfactual analysis since completely eliminating the rise would lead to all workers sorting into a single occupation, rendering the concept of relative wage vacuous.

training and college consulting. Using NLSY 79 and 97 combined with O\*NET data, I show that workers in occupations that become more mixed of analytical, computer, and interpersonal skills earn a positive wage premium. Further, I calculated the degree of mixing for each college major and show that workers who have studied a college major more mixed in these non-routine skills earn as much as 3 percent more. In sum, this paper's results suggest that in a world with an increasing trend of skill mixing with positive wage premiums due to technological advancements, educators and policymakers should consider providing more "mixed" skills to workers rather than focusing solely on nurturing expertise and specialization.

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# Appendix for Online Publication

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## A ADDITIONAL EMPIRICAL RESULTS

### A.1 Data Construction

In this section, I give more details on data construction for the two primary datasets on job skill demand employed in Section III and IV, namely O\*NET (Occupation Information Network) and Lightcast (previously known as "Burning Glass"). Specifically, I discuss strategies for leveraging the longitudinal information in these datasets with higher precision. I also present an overview of their inherent characteristics, advantages and disadvantages, and how they are cross-walked with other datasets used in the analysis.

**O\*NET:** Administered by the U.S. Department of Labor, O\*NET is a replacement to the Dictionary of Occupational Titles (DOT). It is more comprehensive and more frequently updated and has been used widely to analyze occupation skill requirements and work settings (i.e., [Acemoglu and Autor 2011](#); [Yamaguchi 2012](#); [Autor and Price 2013](#)).

Nonetheless, to use the longitudinal variation from O\*NET, the key challenge concerns partial updating – each new version of O\*NET only update an average of 110 of targeted occupations among the 970 7-digit occupations. Online Appendix Table A1 lists different versions of O\*NET, the release year, and the year composition for 3 of the modules. Specifically, for each release of O\*NET, I assign a “Considered Year” such that at least 55% to 60% of occupations are updated after that year.

Moreover, I use 4-year intervals. The last column of online Appendix Table A1 show the percent of occupations that are updated from the last considered year of data included in the analysis. On average, more than 50 percent of the occupations are updated across the succeeding years included in the analysis.

O\*NET contains around 270 descriptors about occupations that are grouped into 9 modules: abilities, knowledge, skills, work context, work activities, experience/education requirement, job interest, work values, and work styles. For my main analysis, I only use descriptors from 3 modules: work context, work activities, and knowledge that are more interpretable as the skill requirements, and are consistently evaluated by incumbent workers for each new release. These descriptors come as importance, level, extent, and relevance. To interpret the skill measures as gauging the intensity, I use the importance information, similar to i.e., [Acemoglu and Autor \(2011\)](#) and [Guvenen et al. \(2020\)](#), but the level and importance

pieces of information are highly correlated and don't affect the qualitative patterns of skill mixing shown in the paper.

In Section III, I show the longitudinal changes in skill mixing by combining O\*NET and ACS datasets. O\*NET uses SOC 2000 occupation classification for releases between 2000 and 2010 and SOC 2010 for years after 2010. To link O\*NET and ACS, I first bridge SOC codes to the census' OCC 2000 and OCC 2010 codes respectively using crosswalks provided by the [Analyst Resource Center](#) and the [Bureau of Labor Statistics](#). Then different years of OCC codes are homogenized using a balanced and consistent panel of occupation codes developed by [Autor and Dorn \(2013\)](#) and updated by [Deming \(2017\)](#). The same code is also used for combining all years of ACS and O\*NET data.

**Lightcast:** Lightcast (formerly "Burning Glass Technologies") is an analytics software company that has developed a comprehensive and detailed dataset derived from online job postings, capturing real-time labor market information, reflecting the current demand for skills and occupations. One of the key advantages of Lightcast data is its extensive coverage and high-frequency updates. By examining over 40000 online job boards and company websites, it provides near universe of online posted vacancies; moreover, it provides a level of detail that is rarely matched by other sources of labor market data, such as job titles, employer information, and specific skill requirements. This allows for a very granular analysis of job skill requirements and labor market dynamics across different industries and regions.

The information that Lightcast collected is then parseed and deduplicated into a systematic list of thousands of codified skills. Similar to [Hershbein and Kahn \(2018\)](#) and [Braxton and Taska \(2023\)](#), the dataset that this study uses defines different skills if the codified skills from Lightcast contains relevant key words. Specifically, the key words used to capture analytical skill are: "research", "analy", "decision", "solving", "math", "statistic", and "thinking". The key words used to capture interpersonal skill are "communication", "teamwork", "collaboration", "negotiation", and "presentation". For each occupation, the share of posted vacancies that require a particular skill is then the measure of skill for that occupation, capturing the extensive margin of firm skill demand.

However, like any data source, Lightcast data also has its limitations. For instance, it only covers online job postings, which may not represent the entire labor market, especially for low-skilled jobs or jobs in small firms that do not typically advertise online. It may also have

a bias towards certain types of jobs or industries that use online job advertisements more frequently, and online vacancies by nature overrepresent growing firms (Davis, Faberman, and Haltiwanger 2013). One note of Lightcast data is that the measure of skill as introduced above focuses on the extensive margin – whether a job uses a skill or not – this is very different than the level and importance information that O\*NET contains.



Table A1: O\*NET Versions and Corresponding Years

|                   | Released Year | Division    | Work Context | Work Activities | Knowledge | Skills | Abilities | Considered Year |
|-------------------|---------------|-------------|--------------|-----------------|-----------|--------|-----------|-----------------|
| <b>O*NET 13.0</b> | 2008          | Post 2005   | 73.79%       | 73.79%          | 73.79%    | 73.79% | 73.79%    | 2005            |
|                   |               | Before 2005 | 26.21%       | 26.21%          | 26.21%    | 26.21% | 26.21%    |                 |
| <b>O*NET 18.0</b> | 2013          | Post 2009   | 57.15%       | 57.21%          | 57.21%    | 99.89% | 57.21%    | 2009            |
|                   |               | Before 2009 | 42.85%       | 42.79%          | 42.79%    | 0.11%  | 42.79%    |                 |
| <b>O*NET 22.0</b> | 2017          | Post 2013   | 57.84%       | 57.67%          | 57.67%    | 57.67% | 57.67%    | 2013            |
|                   |               | Before 2013 | 42.16%       | 42.33%          | 42.33%    | 42.33% | 42.33%    |                 |
| <b>O*NET 25.0</b> | 2022          | Post 2018   | 54.52%       | 54.52%          | 54.52%    | 54.52% | 54.52%    | 2018            |
|                   |               | Before 2018 | 45.48%       | 45.48%          | 45.48%    | 45.48% | 45.48%    |                 |

*Notes: The table summarizes different versions of the O\*NET (Occupational Information Network) database, along with their released year, year division for the 5 modules (work context, work activities, knowledge, skills, abilities), and the considered year for each version. The “Post” and “Before” rows indicate whether the data in each version was collected post or before a particular year. The “Considered Year” column represents the year considered to be corresponding to each release of O\*NET based on the year division of data.*

## A.2 Details of Skill Measures

In this section I briefly discuss the choice of skill measures used in the main analysis. Specifically, I show the composition of descriptors of each skill used in the main analysis. I also discuss the composite skill measures' validity and correlation with other measures used in the literature.

Table A2: O\*NET Skill Measures and Composing Descriptors

| Non-routine Analytical  | Routine   |
|---|---|
| <ul style="list-style-type: none"> <li>Analyzing data/information</li> <li>Thinking creatively</li> <li>Interpreting information for others</li> </ul>  | <ul style="list-style-type: none"> <li>Importance of repeating the same tasks</li> <li>Importance of being exact or accurate</li> <li>Structured v. Unstructured work (reverse)</li> <li>Pace determined by speed of equipment</li> </ul>   |
| Non-routine Interpersonal   | Leadership  |
| <ul style="list-style-type: none"> <li>Establishing and maintaining personal relationships</li> <li>Guiding, directing and motivating subordinates</li> <li>Coaching/developing others</li> </ul> | <ul style="list-style-type: none"> <li>Controlling machines and processes</li> <li>Spend time making repetitive motions</li> <li>Making Decisions and Solving Problems</li> <li>Developing Objectives and Strategies</li> <li>Organizing, Planning, and Prioritizing Work</li> <li>Coordinating the Work and Activities of Others</li> <li>Developing and Building Teams</li> <li>Guiding, Directing, and Motivating Subordinates</li> <li>Provide Consultation and Advice to Others</li> </ul> |
| Computer  |   |
| <ul style="list-style-type: none"> <li>Interacting With Computers</li> <li>Programming</li> <li>Computers and Electronics</li> </ul>  |   |
| Design  |   |
| <ul style="list-style-type: none"> <li>Design</li> <li>Drafting, Laying Out, and Specifying Technical Devices, Parts, and Equipment</li> </ul>  |   |

Table A2 lists the O\*NET descriptors for each of the constructed composite skill measures. The analytical measure corresponds to “non-routine cognitive analytic” and the interpersonal measure corresponds to “non-routine interpersonal” from [Acemoglu and Autor \(2011\)](#). I collapse [Acemoglu and Autor \(2011\)](#)’s “routine cognitive” (the first three items under Routine) and “routine manual” (the last three items under Routine) into a big routine skill, as occupations using these skills have been shown to have had similar labor market dynamics ([Autor, Levy, and Murnane 2003](#); [Acemoglu and Autor 2011](#)). I didn’t include the “non-routine manual” from [Acemoglu and Autor \(2011\)](#), since it involves descriptors from the “Abilities” module of O\*NET that is evaluated solely by job analysts, and for consistency

purposes I focus on occupation descriptors that are evaluated by incumbents workers.

Further, I include two additional composite skills that are be non-routine. First, I include a “leadership” composite skill that is comprised of descriptors of problem-solving, strategic thinking, teamwork, and communication. They all demand an ability to guide and manage teams, strategize and plan, solve problems, coordinate activities, and communicate effectively within a team or organizational context. Second, I include a “design” composite skill measure revolves around technical proficiency and creativity. The composing descriptors necessitate a strong understanding of design principles, the ability to draft and layout specifications for technical devices.

Table A3: Correlations Among Skill Measures

| Skill Measures              | (1)   | (2)   | (3)   | (4)   | (5)   | (6)   | (7)   | (8)   | (9)  |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| (1) analytical              | 1.00  |       |       |       |       |       |       |       |      |
| (2) routine                 | -0.45 | 1.00  |       |       |       |       |       |       |      |
| (3) interpersonal           | 0.44  | -0.49 | 1.00  |       |       |       |       |       |      |
| (4) computer                | 0.92  | -0.27 | 0.25  | 1.00  |       |       |       |       |      |
| (5) math skill              | 0.50  | -0.11 | 0.12  | 0.46  | 1.00  |       |       |       |      |
| (6) social skill            | 0.34  | -0.54 | 0.61  | 0.24  | 0.09  | 1.00  |       |       |      |
| (7) analytical (broader)    | 0.84  | -0.59 | 0.55  | 0.68  | 0.63  | 0.57  | 1.00  |       |      |
| (8) mechanical (broader)    | -0.43 | 0.58  | -0.24 | -0.38 | -0.11 | -0.38 | -0.49 | 1.00  |      |
| (9) interpersonal (broader) | 0.10  | -0.35 | 0.73  | 0.02  | -0.09 | 0.70  | 0.28  | -0.22 | 1.00 |

*Notes: This table reports the correlation among different skill measures constructed using O\*NET data from 2000-2020. The first four skills measures in rows (1) to (4) are the ones used in the main text and are constructed using the O\*NET descriptors shown in Table A1. The next two measures in rows (5) to (6), math skill and social skill are constructed based on Deming (2017). Math skill is the average of 1) mathematical reasoning ability, 2) mathematics knowledge, and 3) mathematics skill. Social skill consists of the average of four variables, 1) social perceptiveness, 2) coordination, 3) persuasion, and 4) negotiation. Rows (7) to (9) contain the broader analytical, mechanical, and interpersonal skills constructed using factor analysis as discussed in online Appendix A.5 with their specific component variables.*

Table A3 shows the correlation among the chosen skills used in the main analysis, as well as math skill and social skill are constructed based on Deming (2017), and broader skill measures skills constructed using factor analysis as discussed in online Appendix A.5. It reveals the analytical skill (row 1), exhibits a strong positive correlation with computer skills (0.92) and a moderate correlation with math skills (0.50). This pattern suggests that positions requiring analytical skills frequently necessitate computer and mathematical proficiency.

Interpersonal skills (row 3) indicate a moderate-to-strong positive correlation with social skills (0.61) and broader interpersonal skills (0.73). This correlation suggests that occupations demanding interpersonal skill also emphasize social abilities. These results validate the interpretation of the analytical and interpersonal skills with strong positive correlation with math and social skills used in other studies.

On the other, a strong negative correlation exists between routine and interpersonal skills (-0.49) and between routine and interpersonal skills (-0.45), indicating that these skill sets rarely overlap in job requirements. The broader skill categories (rows 7 to 9) align well with their narrower counterparts, reinforcing the validity of these categorizations. In sum there exist specific, identifiable skills in the labor market, some of which are more align with each other, but they tend not to overlap, reflecting distinct competencies.

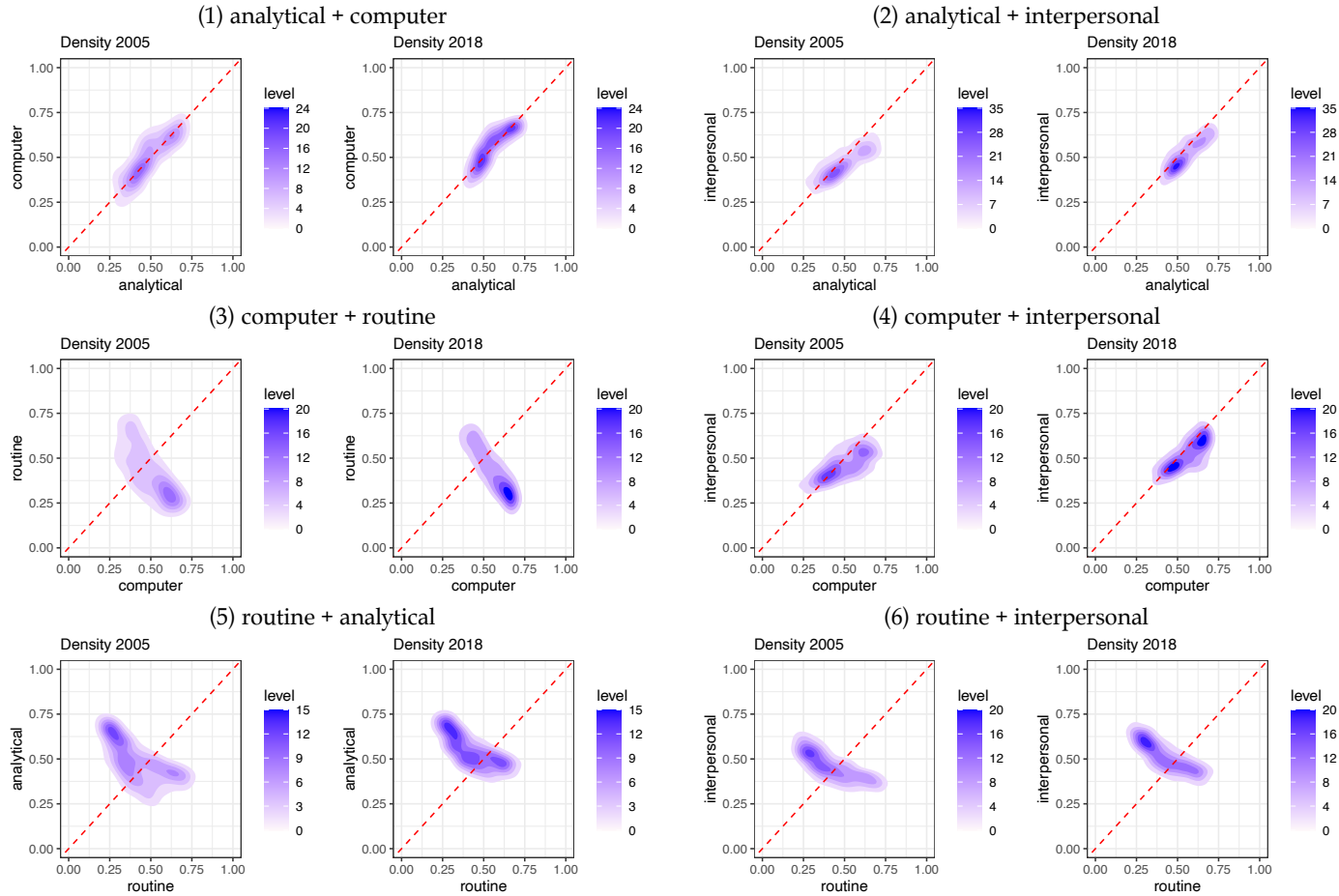
### A.3 Alternative Non-parametric Examination of Trend

An intuitive alternative check of the changes in the degree of skill mixing across periods is to non-parametrically plot the density of skill intensities in different skill dimensions. Figure A1 depicts the density of skill requirements of six skill pairs out of the four constructed skills in 2005 and 2018 respectively using O\*NET data combined with ACS. As in previous studies of job attributes, I aggregate the ACS to sex-education-industry cells that implicitly control for changes in task inputs due to variations in skill and industry mixes in the U.S. economy. Employment weights are obtained as the total hours of work aggregated to each cell. The ACS then supplies the O\*NET data with employment across worker types to present an overarching picture of skill intensities in the economy.

From the figure, there is a clear shift towards mixed skill requirements in panel (1) pertaining to analytical and computer skills where these skills are positively correlated. Two salient changes happened in this period: first, the entire distribution of skill intensities moves near the 45-degree line; second, there is a significant increase in density around the 45-degree line. Both of these changes will lead to an increased degree of skill mixing, according to how it is defined based on the position of skill vectors relative to the 45-degree line. Such a change is also salient for other non-routine skill combinations: in the analytical and interpersonal skills space (panel 2), as well as in the computer and interpersonal skills space (panel 4).

On the other hand, one can scarcely observe changes towards mixing in the routine skill spaces, as shown in panel (3),(5) and (6). From these three plots, there is an increase in density towards the non-routine direction, losing density in routine skill, and the resulting change in relationship with the diagonal doesn't indicate a strengthening of mixing.

Figure A1: Non-parametric Depiction of Skill Intensities, 2005 vs. 2018

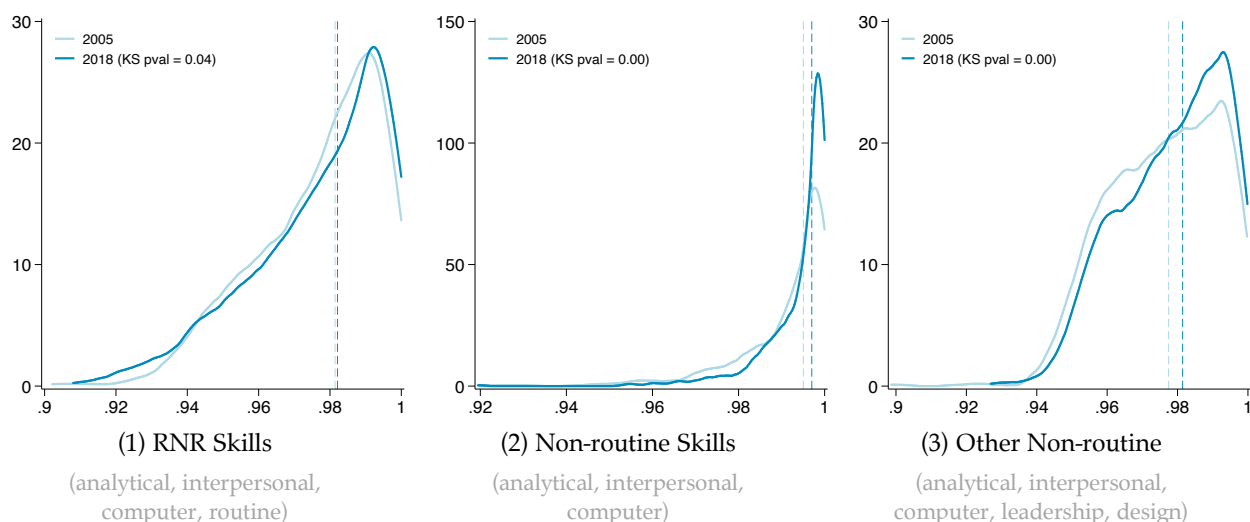


Notes: These density plots show the intensity of occupation skill requirements across the U.S. economy in 2005 (column 1) and 2018 (column 2) in six two-dimensional skill spaces, as illustrated in the six panels. Darker colors indicate higher density and the 45-degree line is also plotted. O\*NET and ACS data are combined for the construction of these plots. The two datasets are merged using consistent occupation codes constructed by [Autor and Price \(2013\)](#) and further developed by [Deming \(2017\)](#). Skill measures are constructed using the O\*NET descriptors shown in Table A1. All measures are normalized to [0,1].

## A.4 Robustness of Trend Results to Different Weights and Groupings

In this section, I discuss the robustness of the trend results to different weighting, granularities, and groupings. In particular, I show the density results using weighted skill mixing indexes instead of unweighted in the main analysis; the trend of skill mixing using indexes for different skill pairs, instead of high-dimensional indexes; the heterogeneity of skill mixing increases across occupations using indexes for different skill pairs; and the differential changes in skill mixing across industries.

Figure A2: Density for Skill Mixing Indexes (Weighted Cosine Distances), 2005 vs. 2018



Notes: These figures plot the PDF of different mixing indexes in 2005 (light blue line) and 2018 (dark blue line). The x-axis displays the value of mixing indexes with a maximum of 1 by construction. These plots are created using O\*NET and ACS data merged with occupation codes constructed by Autor and Price (2013) and developed by Deming (2017).

On concern of analysis of skill mixing shown in 2 is that as it shows the changes in the density of skill mixing indexes without weighting, it might not accurately represent the overall picture of mixing in the whole economy. In A2, I weight the skill mixing indexes using employment weight at 6-digit SOC level occupation from OEWS. The results show a similar message that there is sizable increase in skill mixing particularly for non-routine skills. The only difference is that with employment weighting, the increase in the skill mixing of RNR skill is more discernable. This implies relative higher weight of occupations intensive in RNR skills that also increase in skill mixing in these skills.

Next, I discuss the changes in skill mixing using indexes of different skill pairs instead of



high-dimensional indexes. Figure A5 panel (1) shows the results. The figure shows similar results as the main analysis: there is a stronger increase in skill mixing among non-routine skills. For the skill combinations involving routine skills, the change in skill mixing is negligible.

In Table A4, I show the decomposition results of the changes in the skill mixing indexes for different skill pairs across different datasets. A similar pattern as the main analysis in 2, that is within-occupation variation surpassed across-occupation variation in accounting for the increase for skill mixing. This is particularly true using constantly updated occupations at 6-digit occupation level for non-routine skill pairs, and also quite apparent in the Lightcast data. The only slight difference is that for full O\*NET data at 6-digit level, across-occupation variation do contribute to a comparable amount to the change in skill mixing for skill pairs with routine skill.

Additionally, in Figure A3, I show employment percentages and hourly wages across various job categories in the full and the sample for constantly updated occupation. This information gives the occupational structure and return for these two samples. It can be seen that while professionals make up a smaller percentage in the selected sample, they exhibit a higher average wage, suggesting a focus on higher-earning professionals in the selected sample. Conversely, the sales category shows a drastic reduction in the selected sample, indicating its limited representation. The hourly wage rates across the categories seem fairly consistent between the full and selected samples, with minor discrepancies.

Table A4: Decomposition of Mixing Indexes' Changes by Skill Pairs

|                  | Skill Groups               | 6-digit Occupations |        |        | 4-digit Occupations |        |        |
|------------------|----------------------------|---------------------|--------|--------|---------------------|--------|--------|
|                  |                            | total               | within | across | total               | within | across |
| Full O*NET       | analytical + computer      | 10.52               | 6.40   | 4.12   | 10.49               | 6.60   | 3.89   |
|                  | analytical + interpersonal | 5.36                | 2.90   | 2.46   | 8.17                | 4.08   | 4.09   |
|                  | computer + routine         | 4.38                | 2.41   | 1.97   | 5.16                | 2.94   | 2.22   |
|                  | computer + interpersonal   | 7.23                | 3.60   | 3.63   | 11.81               | 7.51   | 4.30   |
|                  | routine + analytical       | 4.00                | 2.29   | 1.71   | 4.23                | 3.16   | 1.07   |
|                  | routine + interpersonal    | 1.93                | 0.12   | 1.81   | 2.35                | 1.08   | 1.26   |
| Constant Updates | analytical + computer      | 5.59                | 6.03   | -0.44  | 6.42                | 5.89   | 0.53   |
|                  | analytical + interpersonal | 3.53                | 4.58   | -1.05  | 4.00                | 3.00   | 1.00   |
|                  | computer + routine         | 2.88                | 3.69   | -0.81  | 0.52                | 1.93   | -1.42  |
|                  | computer + interpersonal   | 0.78                | 1.86   | -1.09  | 6.86                | 5.93   | 0.93   |
|                  | routine + analytical       | 2.04                | 2.13   | -0.09  | 1.48                | 3.60   | -2.12  |
|                  | routine + interpersonal    | 0.81                | 0.82   | -0.01  | -0.33               | 1.47   | -1.80  |
| Lightcast        | analytical + computer      |                     |        |        | 12.64               | 11.74  | 0.90   |
|                  | analytical + interpersonal |                     |        |        | 2.51                | 2.20   | 0.31   |
|                  | computer + interpersonal   |                     |        |        | -4.18               | -3.79  | -0.39  |

Notes: This table shows the shift-share decomposition of changes in the average level of different mixing indexes between 2005-2018 in percentile units. Specifically, for a change in the percentile of a mixing index  $h$  over two periods  $t$  and  $\tau$ , its change  $\Delta T_{h\tau} = T_\tau - T_t$  which can be decomposed to  $\Delta T_h = \sum_j \left( \Delta E_{j\tau} \alpha_{jh} \right) + \sum_j \left( E_j \Delta \alpha_{jh\tau} \right) = \Delta T_h^a + \Delta T_h^w$  where  $E_{j\tau}$  is employment weight in occupation  $j$  in year  $\tau$ , and  $\alpha_{jh\tau}$  is the level of mixing index  $h$  in occupation  $j$  in year  $\tau$ ,  $E_j = \frac{1}{2}(E_{jt} + E_{j\tau})$  and  $\alpha_{jh} = \frac{1}{2}(\alpha_{jht} + \alpha_{jh\tau})$ .  $\Delta T_h^a$  and  $\Delta T_h^w$  then represent across-occupation and within-occupation change.

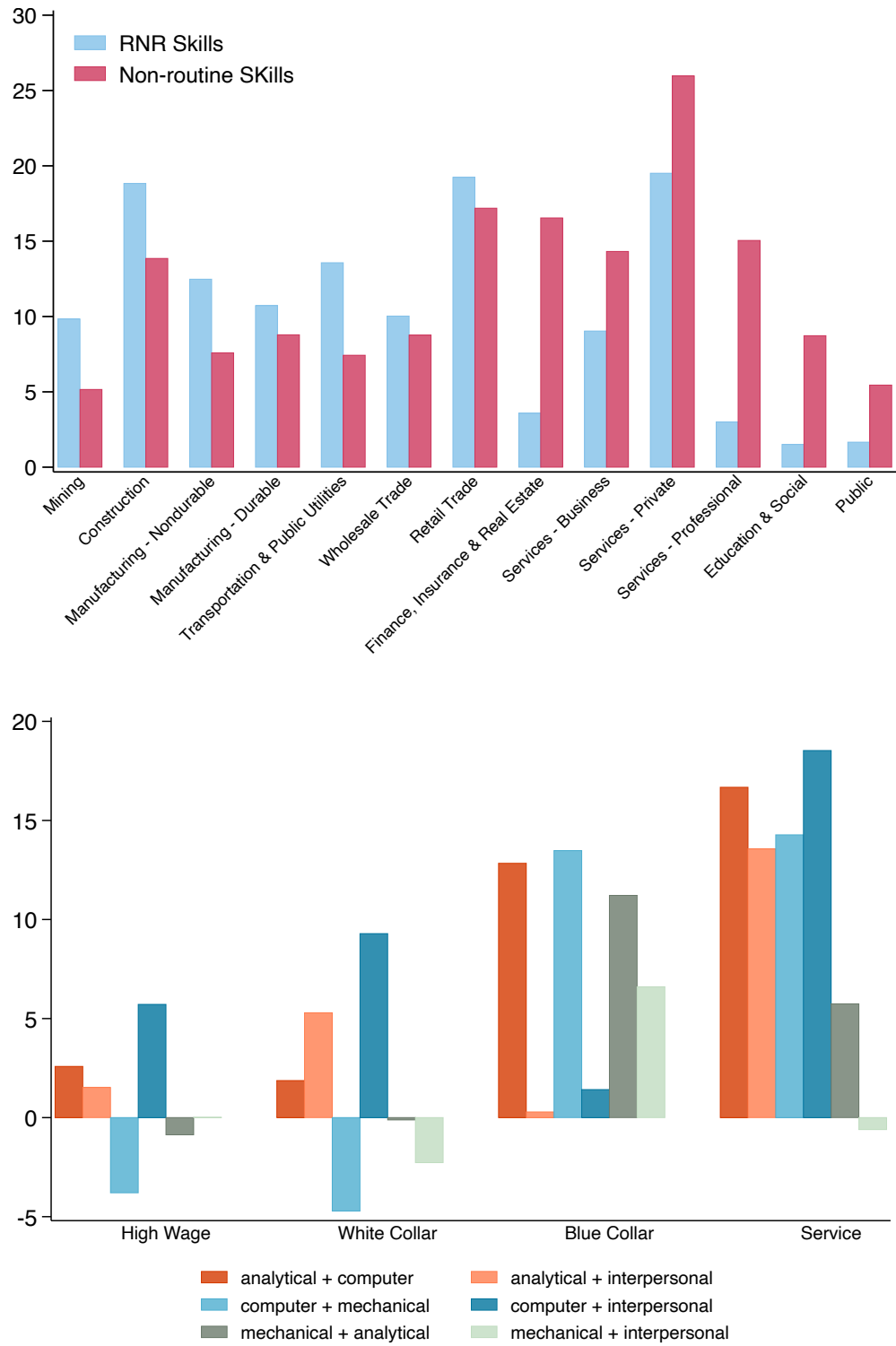
Figure A3: Mixing Index Change by Industry and Occupation Groups, 2005-2018



Now, I turn to discuss the robustness of the occupation heterogeneity in skill mixing changes. Figure A3 provides a detailed view of the changes in the skill mixing of different skill pairs across various occupations. Overall, the increase in the degree of mixing of non-routine skill pairs is higher than the increase in the mixing of skill pairs that include routine skills. Service and blue-collar occupations experience the highest increases in skill mixing of different skills, surpassing white-collar and high-wage occupations. When it comes to routine skills, blue-collar jobs lead other occupations in terms of increase in mixing.

Figure A3 also provides a detailed view of the changes in the skill mixing of RNR and non-routine skills across various industries. The main patterns indicate that the private service sector, followed by retail trade and construction, leads others in the growth of skill mixing, while public, education, social, and professional services experience the least increases in skill mixing. There is also noticeable heterogeneity across industries in terms of the skills that are mixed. For instance, in finance, real estate, and professional services, there is much higher mixing in non-routine skills relative to RNR skills; conversely, in industries like mining, transportation, public utilities, and construction, RNR skills are mixed in a higher degree.

Figure A4: Mixing Index Change by Industry and Occupation Groups, 2005-2018



## A.5 Robustness of Trend Results to Measures of Skills

In this section, I discuss the robustness of the trend results to using alternative measures of skills. Specifically, I present alternative trend results using different ways of processing skill descriptors from O\*NET, such not using PCA, and standardizing rather than rescaling. I also show the robustness using broader skill measures than those applied in the main analysis.

**Alternative Construction of Skills:** Since O\*NET contains a large number of descriptors, many of which capture the same dimensions of skill requirements, it becomes standard practice to first abstract useful information from the descriptors to construct lower-dimensional measures of skills. The first approach, as in [Autor, Levy, and Murnane \(2003\)](#), [Acemoglu and Autor \(2011\)](#) and [Deming \(2017\)](#), takes the average of a subset of variables and assumes that such average represents a particular broader skill intensity and not others. The other approach, as in [Lise and Postel-Vinay \(2020\)](#), applies PCA to the entire set of variables, which assumes that each of the variables contains information about underlying components that are orthogonally distributed. Both approaches impose different assumptions, with the first one giving more easily interpretable skill groups while the second being more data-driven. A third approach, as in [Yamaguchi \(2012\)](#), first picks descriptors that are ex-ante most easily interpretable with respect to each skill dimension, and then conducts PCA on those descriptors to abstract the most relevant variation. The main body of the paper adopts the third approach; here I show robustness checks using alternative skill measures.

Online Appendix Figure [A5](#) presents the trend results using skill measures constructed by taking an average of the descriptors without imposing PCA (panel 2) and using skill measures normalized by standard deviation rather than linearly scaled to  $[0, 1]$  (panel 3). Normalizing by standard deviation necessarily creates negative values for the skills; since the mixing index is defined based on positive real values, having these negative values invalidates the mixing index in measuring skill mixing. One solution is to add a positive number to the skill measures. As any number chosen is essentially arbitrary, here I added the negative of the smallest value such that the re-scaled measure lies exactly above 0. For both of these robustness exercises, the main message is similar to the main text: there is a significant increase in mixing for non-routine skills, and less so for RNR skills.

**Skill Measures:** Another concern is that by using skill measures from [Acemoglu and Autor \(2011\)](#), each of which is constructed from a few descriptors, the resulting skill measures

could be relatively “narrow” and don’t provide a comprehensive depiction of the skill spaces. To alleviate this concern, I construct skill measures using a broader set of descriptors, similar to that of [Lise and Postel-Vinay \(2020\)](#). I first select descriptors from abilities, knowledge, skills, and work activities files that are more relevant for job skill demand, leaving me with around 163 descriptors. I then combine each year’s O\*NET data with ACS and conduct PCA on the merged data from the year 2005-2018.

The result from this approach supports the choice of analytical, routine, and interpersonal skills in the main text. The first three factors out of PCA explain around 60% of the variation across all the descriptors for years. The first factor has a strong positive association with reason and math skills, such as "Deductive Reasoning", "Inductive Reasoning" and "Mathematics", while the second factor relates more to motor coordination and mechanical work, such as "Multi-limb Coordination", "Mechanical" and "Equipment Maintenance". The third factor is clearly more associated with interacting with other people, such as "Selling or Influencing Others" and "Resolving Conflicts and Negotiating with Others". I interpret the second factor as "mechanical" rather than routine for the broader skill measures.

After conducting PCA, one could directly extract the factors imposing the assumptions that these factors are orthogonal to each other. While this is obviously quite convenient, it nevertheless creates the challenge of interpretability, since each of the factors has been constructed such that it is positively or negatively correlated with all of the 163 descriptors, and the assumption of orthogonality appears strong if the underlying skills are complementary in production across occupations. To take a fine balance between comprehensibility and interpretability, I adopt an approach similar to the measurement validation literature ([Costello and Osborne 2005](#); [Thompson and Daniel 1996](#)), where I first conduct PCA/factor analysis to reveal the underlying dimensionality and structure of the measure (as has been done in the previous step). Guided by the factor loadings, I then hand-pick the skill descriptors into three broad groups “analytical”, “mechanical” and “interpersonal” without imposing the orthogonality assumption.

Online Appendix Table [A5](#) illustrates the selected descriptors for each of the composite skill measures. These descriptors are broadly in line with [Acemoglu and Autor \(2011\)](#) but have several distinctions. First, the descriptors coming from factor analysis lean more toward reasoning, comprehension, and expression. Second, the mechanical skill used in the main text is the average of two ASVAB test scores that are constructed by the weighted

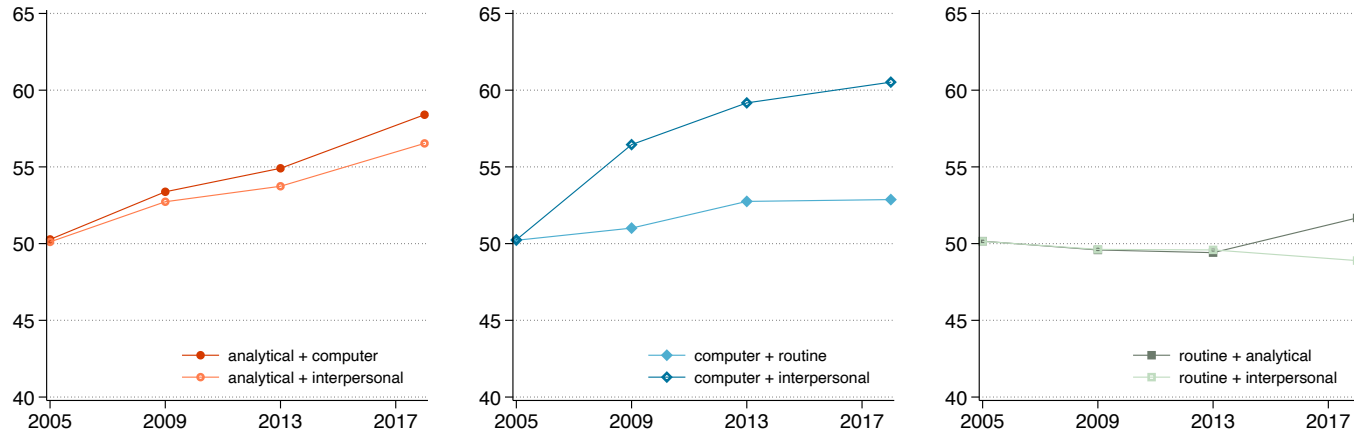
average of 26 O\*NET descriptors. The ASVAB “Mechanical Comprehension” tests contestants’ “understanding of the principles of mechanical devices, structural support, and properties of materials” and the ASVAB Electronics Information tests contestants’ “understanding of electrical current, circuits, devices, and systems”, both stressing one’s knowledge basis. On the other hand, the descriptors chosen by conducting PCA relate more to physical control, coordination, and machine operation aspects rather than mental perception. Third, the descriptor choices for interpersonal skill from factor analysis also emphasize interactions with others as in [Acemoglu and Autor \(2011\)](#) but are more comprehensive.

Online Appendix Figure [A5](#) panel (4) illustrates the trend results using these broader skill measures. The message on the growth of skill mixing remains the same as the main text, that is there is strong growth of skill mixing for non-routine skills. Nonetheless, for RNR skills, the degree of skill mixing has decreased using the broader measures.

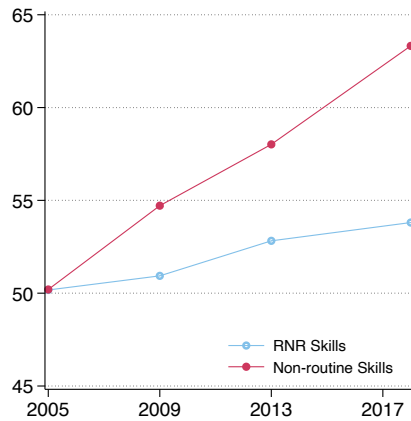


Figure A5: Trend of Skill Mixing with Alternative Skill Measures

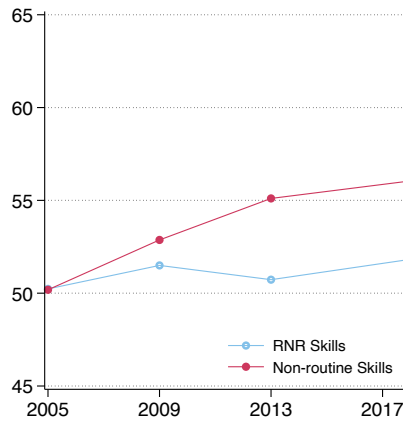
(1) Skill Pairs



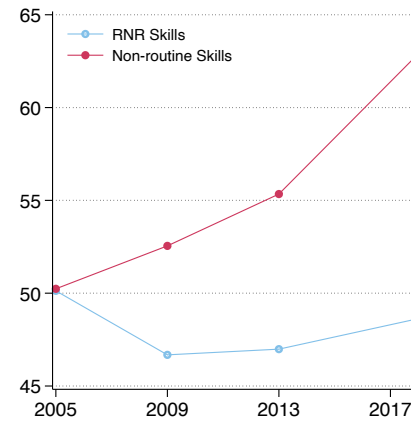
(2) Without PCA



(3) Standardized Skill Measures



(4) Broader Skill Measures



Notes: These three panels plot the employment-weighted mixing indexes of different skills in the U.S. economy from 2005-2018 using O\*NET and ACS data. Panel (1) shows the changes in skill mixing indexes of 6 distinct skill pairs of the 4 skills. In panel (2), skill mixing indexes are calculated using skill measures without using PCA, and in panel (3), skill measures are normalized to have mean 0 and standard deviation 1. Panel (4) shows the changes in mixing indexes using broader skill measures as described in online Appendix A.5.

Table A5: Components of Broader Skill Measures

| Analytical                 | Mechanical  | Interpersonal                         |
|----------------------------|---|---------------------------------------|
| • Deductive Reasoning      | • Multilimb Coordination                            | • Assisting and Caring for Others     |
| • Inductive Reasoning      | • Speed of Limb Movement                            | • Selling or Influencing Others       |
| • Mathematical Reasoning   | • Mechanical  | • Resolving Conflicts and Negotiating |
| • Number Facility          | • Performing General Physical Activities            | • Coaching and Developing Others      |
| • Mathematics              | • Handling and Moving Objects                       | • Staffing Organizational Units       |
| • Economics and Accounting | • Controlling Machines and Processes                | • Service Orientation                 |
| • Reading Comprehension    | • Operate Vehicles, Mechanized Devices or Equipment | • Administration and Management       |
| • Writing                  | • Repairing and Maintaining Mechanical Equipment    | • Customer and Personal Service       |
| • Speaking                 | • Repairing and Maintaining Electronic Equipment    |                                       |
| • Oral Comprehension       | • Installation                                      |                                       |
| • Written Comprehension    | • Equipment Maintenance                             |                                       |
| • Oral Expression          | • Repairing   |                                       |
| • Written Expression       | • Production and Processing                         |                                       |

Notes: This table lists the O\*NET descriptor components for each of the constructed (broader) composite skill groups as discussed in online Appendix [A.5](#).

## A.6 Robustness of Trend Results to Measures of Skill Mixing

I introduce two additional measures and show the robustness of the trend results using these alternative mixing measures.

A first commonly used measure for concentration or specialization based on the share of a total quantity is the Herfindahl–Hirschman Index (HHI).<sup>60</sup> Equation (7) shows how to use inverse HHI to measure skill mixing for an occupation represented by  $(\alpha_{ja}, \alpha_{js})$ . Observe that this index is maximized when  $\alpha_{ja} = \alpha_{js}$ , exactly corresponding to the case when the skill vector lies on the unit vector and becomes most mixed. If one skill’s intensity is greater than the other, the occupation becomes less mixed and this index becomes smaller. Similar to an angle-based mixing index, this measure is insensitive to the length of a skill vector, since each skill is normalized by the total quantity of skills in that occupation.

$$\left[ \left( \frac{\alpha_{ja}}{\alpha_{ja} + \alpha_{js}} \right)^2 + \left( \frac{\alpha_{js}}{\alpha_{ja} + \alpha_{js}} \right)^2 \right]^{-1} \quad (7)$$

$$-\frac{|\alpha_{ja} - \alpha_{js}|}{\alpha_{ja} + \alpha_{js}} \quad (8)$$

Under a similar vein, the degree of skill mixing could also be measured by normalizing the absolute distance between skill intensities for a skill vector: as this distance decreases, the overall skill portfolio becomes more balanced; normalization then eliminates the effect of the length of the skill vector. Equation (8) gives a particular specification of such a measure. As can be seen from this construction, as the absolute distance between skill intensities decreases and the degree of mixing increases, this measure also increases, though from the direction of  $(-\infty, 0)$ .

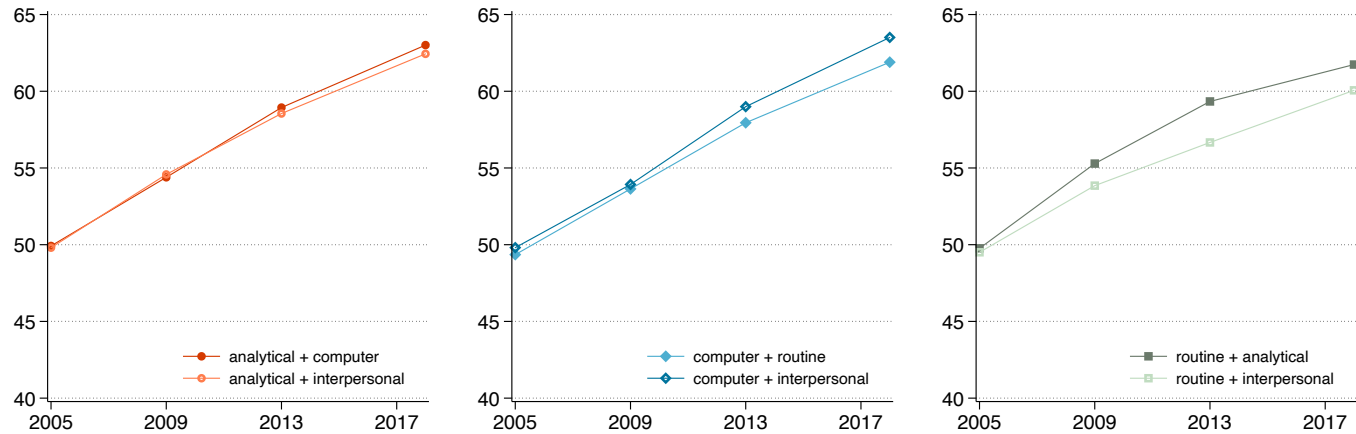
In Online Appendix Figure A6, I show the robustness of the trend results using these alternative measures in panels (1) and (2). Both measures deliver the same message as the cosine mixing index in the main text, that is, there is a sizable increase in skill mixing, particularly for non-routine skills. The only difference is that for the HHI skill index, there is also comparable increase in skill mixing for RNR skills.

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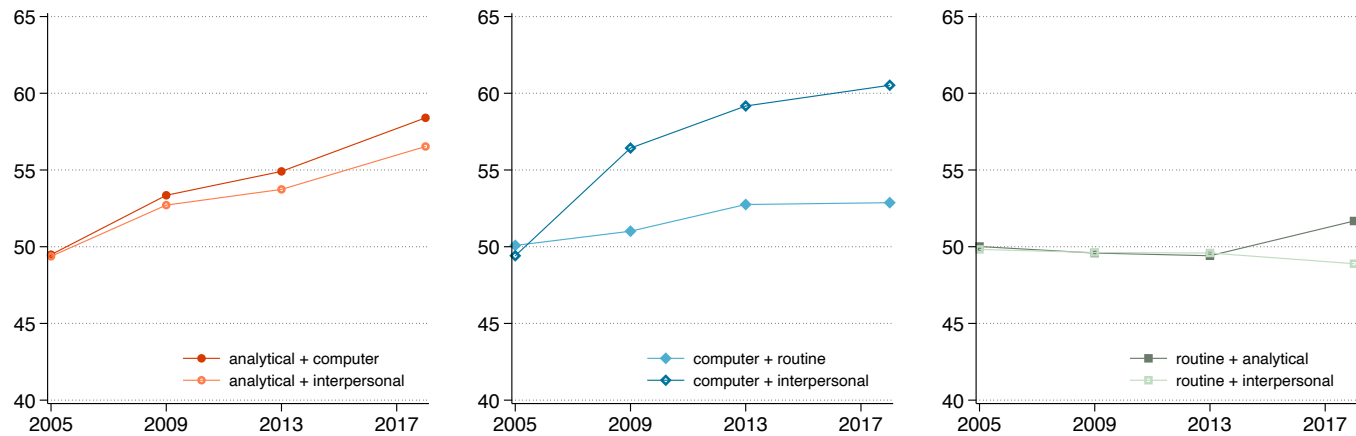
<sup>60</sup>For applications in the labor literature, [Ransom and Phipps \(2017\)](#) and [Jin \(2017\)](#) use the inverse of HHI as the “variety index” to examine how diverse the jobs held for students who graduated from a certain major. Similar logic can be applied to the measurement of skill mixing: in the context of 2-dimensional skill space, the more “varied” skills an occupation uses essentially means that skills are more mixed.

Figure A6: Trend of Skill Mixing with Alternative Indexes

(1) Inverse Herfindahl



(2) Absolute Distance



Notes: These three panels plot the employment-weighted mixing indexes of different skills in the U.S. economy from 2005-2018 using O\*NET and ACS data. In panels (1) and (2), mixing indexes are calculated using the Inverse Herfindahl index and Absolute Distance as discussed in online Appendix A.6.

## A.7 Additional Results on Wage and Employment Returns

In this section, I provide more detailed results on wage returns, and results relating employment to occupation skill mixing. I also provide robustness results to the analysis of the returns to skill mixing in the main paper.

**Detailed Results on Wage and Employment Returns:** I first check the returns to individual skills and how they interact with the returns to skill mixing. Table A6 columns (1) shows that in a cross-sectional regression analytical and computer skills both have significant positive returns. Workers employed in occupations requiring a higher degree of these two skills earn more. Nonetheless, worker in occupations that requiring a higher level of interpersonal skills have a wage reduction.

Column (2) of Table A6 shows that by restricting to within-occupation variation and including skill mixing measures and an important pattern appears: the coefficients for most individual skills become slightly more negative (except for routine skill),<sup>61</sup> while the skill mixing indexes of analytical paired with interpersonal skills, as well as of routine and interpersonal skills show significant positive returns. Such a pattern persists in column (3) and (4) including worker skills and fixed effects, only that the skill mixing of analytical and computer skills are more precisely estimated to have a positive return. This indicates that the mixing of skills earns separate and additional rewards beyond those predicted by individual skills.

Turning to employment, there is also a positive employment premium for workers with a more mixed skill set. Column (6) of Table A6 shows that workers with a more mixed level of computer and interpersonal routine skills, or computer and interpersonal skills, or routine and interpersonal skills, are more likely to move from unemployment to employment. Workers with a more mixed level of analytical and computer, or analytical and interpersonal skills, are also more likely to exit unemployment, but the results are not precisely estimated. On the other hand, workers with a more mixed level of routine and interpersonal skills are less likely to find employment.

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<sup>61</sup>The insignificant or even negative return to analytical skill over time also finds support from the literature. Lise and Postel-Vinay (2020) shows a strong negative 14.4 percent return on cognitive skill using NLSY data with 3-digit occupation fixed effects. Deming (2017) found that the return to cognitive skills has declined across the NLSY79 and NLSY97 cohorts, similar to Castex and Kogan Dechter (2014).

**Robustness Checks:** Table [A7](#) shows the robustness checks to the results in Table [4](#). Specifically, Columns (1) and (2) utilize the Absolute Distance and Inverse Herfindahl measures to formulate mixing indexes (refer to online Appendix [A.6](#) for details), while Columns (3) and (4) employ standardized and broader measures of skills (refer to online Appendix [A.5](#) for details).

The findings presented in Table [A7](#) clearly indicate a consistent trend: workers experience a positive return when they are employed in occupations that are more mixed of analytical with computer skills, analytical with interpersonal skills, and routine with interpersonal skills. Specifically, a notable increase in wage is observed with workers are in occupations more mixed of analytical and computer skills, especially when applying standardized and broad skill measures; similarly, occupations becoming more mixed of analytical and interpersonal skills, when assessed using the Absolute Distance and Inverse Herfindahl measures, also show a significant positive return. The mixing of routine and interpersonal skills exhibits a positive return as well across the different measures.

On the other hand, the mixing of computer and routine skills, computer and interpersonal skills, and routine and analytical skills all exhibit significant negative wage returns at the occupational level. These negative coefficients may indicate that the combination of these particular skills is less beneficial or leads to inefficiency

Table A6: Return to Skill Mixing Full Table with Individual Skills

| Dependent: ln(hourly wage)            | (1)                  | (2)                  | (3)                  | (4)                  | (5)                  |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Occupation Skills</b>              |                      |                      |                      |                      |                      |
| Analytical                            | -0.023**<br>[0.009]  | -0.023**<br>[0.010]  | -0.015*<br>[0.008]   | -0.026*<br>[0.014]   |                      |
| Computer                              | -0.008<br>[0.010]    | -0.014<br>[0.011]    | -0.009<br>[0.009]    | -0.019<br>[0.016]    |                      |
| Interpersonal                         | -0.009<br>[0.009]    | -0.014<br>[0.009]    | -0.013*<br>[0.008]   | -0.002<br>[0.012]    |                      |
| Mechanical                            | 0.021**<br>[0.010]   | 0.029***<br>[0.011]  | 0.019**<br>[0.009]   | 0.034*<br>[0.018]    |                      |
| <b>Mix (non-routine skills)</b>       | 0.017***<br>[0.005]  | 0.015***<br>[0.005]  | 0.014***<br>[0.005]  | 0.005<br>[0.009]     |                      |
| Mix (routine + computer)              | -0.035***<br>[0.008] | -0.045***<br>[0.008] | -0.037***<br>[0.007] | -0.045***<br>[0.013] |                      |
| Mix (routine + analytical)            | -0.041***<br>[0.007] | -0.045***<br>[0.008] | -0.039***<br>[0.007] | -0.007<br>[0.013]    |                      |
| Mix (routine + interpersonal)         | 0.029***<br>[0.009]  | 0.035***<br>[0.009]  | 0.025***<br>[0.008]  | 0.014<br>[0.015]     |                      |
| <b>Worker Skills</b>                  |                      |                      |                      |                      |                      |
| Afqt (analytical)                     |                      | 0.074***<br>[0.011]  |                      | -0.048*<br>[0.028]   | -0.009**<br>[0.004]  |
| Computer                              |                      | 0.045***<br>[0.006]  |                      | 0.031<br>[0.025]     | 0.056***<br>[0.002]  |
| Social (interpersonal)                |                      | 0.016***<br>[0.005]  |                      | 0.032<br>[0.030]     | -0.001<br>[0.002]    |
| ASVAB (routine)                       |                      | -0.015<br>[0.015]    |                      | 0.015<br>[0.024]     | -0.002<br>[0.005]    |
| <b>Mix (non-routine skills)</b>       |                      | 0.065***<br>[0.017]  |                      | 0.030**<br>[0.013]   | 0.135***<br>[0.009]  |
| Mix (ASVAB mechanical + computer)     |                      | 0.029*<br>[0.017]    |                      | -0.004<br>[0.018]    | 0.038***<br>[0.010]  |
| Mix (ASVAB mechanical + afqt)         |                      | 0.006<br>[0.008]     |                      | -0.013<br>[0.026]    | 0.000<br>[0.004]     |
| Mix (ASVAB mechanical + social)       |                      | -0.039***<br>[0.008] |                      | 0.011<br>[0.017]     | -0.030***<br>[0.004] |
| Ethnicity*Gender, Age, Region, Edu FE | X                    | X                    | X                    | X                    | X                    |
| Occupation FE                         | X                    | X                    | X                    | X                    |                      |
| Worker FE                             |                      |                      | X                    | X                    |                      |
| Observations                          | 88,391               | 79,343               | 88,391               | 31,029               | 94,062               |
| R-squared                             | 0.416                | 0.430                | 0.756                | 0.704                | 0.136                |

Notes: See Table 4 notes.

Table A7: Robustness Checks of Return to Skill Mixing

| Dependent: ln(hourly wage)                     | (1)       | (2)       | (3)       | (4)       |
|--|-----------|-----------|-----------|-----------|
| Analytical                                     | -0.014*   | -0.008    | -0.009    | -0.013    |
|  | [0.008]   | [0.033]   | [0.008]   | [0.008]   |
| Computer                                       | -0.002    | 0.069**   | 0.002     | -0.038*** |
|  | [0.009]   | [0.027]   | [0.009]   | [0.010]   |
| Interpersonal                                  | -0.019**  | -0.118*** | -0.018**  | -0.014*   |
|  | [0.008]   | [0.030]   | [0.008]   | [0.008]   |
| Routine  | 0.026***  | 0.091***  | 0.005     | 0.010     |
|  | [0.009]   | [0.017]   | [0.008]   | [0.008]   |
| Mix (analytical + computer)                    | 0.007     | -0.040    | 0.008*    | 0.020***  |
|  | [0.005]   | [0.036]   | [0.005]   | [0.007]   |
| Mix (analytical + interpersonal)               | 0.010**   | 0.156***  | 0.006     | 0.025***  |
|  | [0.004]   | [0.042]   | [0.004]   | [0.005]   |
| Mix (computer + routine)                       | -0.028*** | -0.045*** | -0.021**  | -0.087*** |
|  | [0.007]   | [0.015]   | [0.008]   | [0.013]   |
| Mix (computer + interpersonal)                 | -0.011**  | -0.019    | -0.013*** | -0.021*** |
|  | [0.005]   | [0.033]   | [0.005]   | [0.008]   |
| Mix (routine + analytical)                     | -0.033*** | -0.080*** | -0.041*** | -0.041**  |
|  | [0.007]   | [0.015]   | [0.008]   | [0.018]   |
| Mix (routine + interpersonal)                  | 0.010     | 0.033**   | 0.033***  | 0.026**   |
|  | [0.007]   | [0.016]   | [0.006]   | [0.012]   |
| Ethnicity $\times$ Gender, Age, Region, Edu FE | X         | X         | X         | X         |
| Occupation FE                                  | X         | X         | X         | X         |
| Worker FE                                      | X         | X         | X         | X         |
| Observations                                   | 87,655    | 87,655    | 87,655    | 87,655    |
| R-squared                                      | 0.757     | 0.757     | 0.757     | 0.758     |

Notes: This table reports the robustness checks to the results in Table 4. Columns (1) and (2) use Absolute Distance and Inverse Herfindahl measures to construct mixing indexes (see online Appendix A.6 for details) and Columns (3) and (4) use standardized and broad measures of skills (see online Appendix A.5 for details). Log hourly wages are the outcome variables and person-year is the unit of observation. The occupational skill and skill mixing measures come directly from O\*NET and are merged to NLSY79&97 based on census occupation codes. All measures of skill and skill mixing are normalized to have mean 0 and standard deviation 1. Ethnicity-by-gender, age, year, census region, urbanicity, and a 5-category (no high-school, high-school graduate, some college, college graduate, post-college) education fixed effects are included for all regressions, with additional fixed effects as indicated in the table. Standard errors are clustered at the individual level. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$ .



Table A8: Top College Majors in Skill Mixing

| Hybrid Index – Level                         | Hybrid Index – Change                 |
|--|---------------------------------------|
| <b>analytical + computer + interpersonal</b> |                                       |
| Physical Sciences                            | Architecture and Environmental Design |
| Engineering                                  | Computer and Information Sciences     |
| Letters                                      | Communications                        |
| <b>analytical + computer</b>                 |                                       |
| Physical Sciences                            | Interdisciplinary Studies             |
| Engineering                                  | Area Studies                          |
| Letters                                      | Computer and Information Sciences     |
| <b>analytical + interpersonal</b>            |                                       |
| Public Affairs and Services                  | Architecture and Environmental Design |
| Business and Management                      | Computer and Information Sciences     |
| Social Sciences                              | Communications                        |
| <b>computer + interpersonal</b>              |                                       |
| Social Sciences                              | Architecture and Environmental Design |
| None, General Studies                        | Computer and Information Sciences     |
| Public Affairs and Services                  | Engineering                           |
| <b>routine + computer</b>                    |                                       |
| Transportation                               | Social Sciences                       |
| Fine and Applied Arts                        | Agriculture and Natural Resources     |
| Engineering                                  | Foreign Languages                     |
| <b>routine + analytical</b>                  |                                       |
| Transportation                               | Agriculture and Natural Resources     |
| Health Professions                           | Social Sciences                       |
| Computer and Information Sciences            | Foreign Languages                     |
| <b>routine + interpersonal</b>               |                                       |
| Transportation                               | Agriculture and Natural Resources     |
| Health Professions                           | Architecture and Environmental Design |
| Military Sciences                            | Social Sciences                       |

*Notes: This table lists the top 3 college majors for each mixing index both in terms of levels and in terms of changes from 2005 to 2019. To calculate the degree of skill mixing for college majors, I first map the occupation level degree of skill mixing contained in the O\*NET data to NLSY, and then calculate for each college major's students, the employment weighted average of skill intensities and mixing indexes of their occupations. I use both NLSY79&97 to get the employment weight on occupations.*

Table A9: Return to Skill Mixing Full Table with Individual Skills

| NLSY97 Code<br>(before 2010) | Major Field of Study  | NLSY79<br>Code | NLSY97 Code<br>(CM10) | Major Field of Study  | NLSY79<br>Code | NLSY79<br>Code | Major Field of Study                  |
|------------------------------|---|----------------|-----------------------|---|----------------|----------------|---------------------------------------|
| 0                            | None, no major yet (didn't/don't) have to declare yet;                      | .              | 1                     | Agriculture, agriculture operations, & related sciences                           | 1              | 0              | None, General Studies                 |
| 1                            | Agriculture/Natural resources   | 1              | 3                     | Natural resources and conservation  | 1              | 1              | Agriculture and Natural Resources     |
| 2                            | Anthropology  | 22             | 4                     | Architecture and related services   | 2              | 2              | Architecture and Environmental Design |
| 3                            | Archaeology   | 22             | 5                     | Area, ethnic, cultural, gender, and group studies                                 | 3              | 3              | Area Studies                          |
| 4                            | Architecture/Environmental design   | 2              | 9                     | Communications, journalism, and related programs                                  | 6              | 4              | Biological Sciences                   |
| 5                            | Area studies  | 3              | 10                    | Communications technologies/technicians & support services                        | 6              | 5              | Business and Management               |
| 6                            | Biological sciences   | 4              | 11                    | Computer & information sciences & support services                                | 7              | 6              | Communications                        |
| 7                            | Business management   | 5              | 12                    | Personal and culinary services  | 49             | 7              | Computer and Information Sciences     |
| 8                            | Communications  | 6              | 13                    | Education   | 8              | 8              | Education                             |
| 9                            | Computer/Information science  | 7              | 14                    | Engineering   | 9              | 9              | Engineering                           |
| 10                           | Criminology   | 22             | 15                    | Engineering technologies & engineering-related fields                             | 9              | 10             | Fine and Applied Arts                 |
| 11                           | Economics   | 22             | 16                    | Foreign languages, literatures, and linguistics                                   | 11             | 11             | Foreign Languages                     |
| 12                           | Education   | 8              | 19                    | Family and consumer sciences/human sciences                                       | 13             | 12             | Health Professions                    |
| 13                           | Engineering   | 9              | 22                    | Legal professions and studies   | 14             | 13             | Home Economics                        |
| 14                           | English   | 15             | 23                    | English language and literature/letters   | 15             | 14             | Law                                   |
| 15                           | Ethnic studies  | 3              | 24                    | Liberal arts and sciences, general studies & humanities                           | 49             | 15             | Letters                               |
| 16                           | Fine and applied arts   | 10             | 25                    | Library science   | 16             | 16             | Library Science                       |
| 17                           | Foreign languages   | 11             | 26                    | Biological and biomedical sciences  | 4              | 17             | Mathematics                           |
| 18                           | History   | 22             | 27                    | Mathematics and statistics  | 17             | 18             | Military Sciences                     |
| 19                           | Home economics  | 13             | 28                    | Military science, leadership, and operational art                                 | 18             | 19             | Physical Sciences                     |
| 20                           | Interdisciplinary studies   | 49             | 29                    | Military technologies and applied sciences  | 18             | 20             | Psychology                            |
| 21                           | Mathematics   | 17             | 30                    | Multi/interdisciplinary studies   | 49             | 21             | Public Affairs and Services           |
| 22                           | Nursing   | 12             | 31                    | Parks, recreation, leisure, and fitness studies                                   | 21             | 22             | Social Sciences                       |
| 23                           | Other health professions  | 12             | 32                    | Basic skills development/remedial education                                       | 8              | 23             | Theology                              |
| 24                           | Philosophy  | 15             | 33                    | Citizenship activities  | 21             | 24             | Mechanics                             |
| 25                           | Physical sciences   | 19             | 34                    | Health-related knowledge and skills   | 12             | 25             | Transportation                        |
| 26                           | Political science and government  | 21             | 35                    | Interpersonal and social skills   | 6              | 49             | Interdisciplinary Studies             |
| 27                           | Pre-dental  | 4              | 36                    | Leisure and recreational activities   | 49             | 99             | Other                                 |
| 28                           | Pre-law   | 14             | 37                    | Personal awareness and self-improvement   | 8              |                |                                       |
| 29                           | Pre-med   | 4              | 38                    | Philosophy and religious studies  | 15             |                |                                       |
| 30                           | Pre-vet   | 4              | 39                    | Theology and religious vocations  | 23             |                |                                       |
| 31                           | Psychology  | 20             | 40                    | Physical sciences   | 19             |                |                                       |
| 32                           | Sociology   | 22             | 41                    | Science technologies/technicians  | 24             |                |                                       |
| 33                           | Theology/religious studies  | 23             | 42                    | Psychology  | 20             |                |                                       |
| 36                           | Nutrition/Dietetics   | 4              | 43                    | Homeland security, law enforcement, firefighting, and related protective services | 18             |                |                                       |
| 37                           | Hotel/Hospitality management  | 5              | 44                    | Public administration and social service professions                              | 21             |                |                                       |
| 38                           | Other - Recoded to Liberal Arts and Sciences                                | 49             | 45                    | Social sciences   | 22             |                |                                       |
| 39                           | Other - Recoded to Automobile/Automotive Mechanics Technology/Technician    | 24             | 46                    | Construction trades   | 24             |                |                                       |
| 40                           | Other - Recoded to Human Services, General                                  | 21             | 47                    | Mechanic and repair technologies/technicians                                      | 24             |                |                                       |
| 41                           | Other - Recoded to Social Work  | 21             | 48                    | Precision production  | 24             |                |                                       |
| 42                           | Other - Recoded to Electrical/Electronics Maintenance and Repair Technology | 24             | 49                    | Transportation and materials moving   | 25             |                |                                       |
| 43                           | Other - Recoded to Geography  | 22             | 50                    | Visual and performing arts  | 10             |                |                                       |
| 44                           | Other - Recoded to International Relations & Affairs                        | 21             | 51                    | Health professions and related programs   | 12             |                |                                       |
| 45                           | Other - Recoded to transportation & materials moving                        | 25             | 52                    | Business, management, marketing, & related support services                       | 5              |                |                                       |
| 46                           | Other - Recoded to security and protective services                         | 21             | 53                    | High school/secondary programs and certificates                                   | 8              |                |                                       |
| 47                           | Other - Recoded to legal support services                                   | 14             | 54                    | History   | 22             |                |                                       |
| 48                           | Other - Recoded to other sciences/applied sciences                          | 49             | 60                    | Residency programs  | 12             |                |                                       |
| 99                           | UNCODABLE   | 99             | 999                   | Uncodable   | 99             |                |                                       |

## B THEORY AND QUANTITATIVE

### B.1 Propositions and Proofs

**Lemma 1.** *An occupation  $\mathbf{y} = \{y^1, \dots, y^k, \dots, y^K\} \in S \subset \mathbb{R}^K$  within a closed skill space  $S$  of dimension  $K$  is more mixed in skills based on Definition 1 if for any pair of skills  $(j, k)$ , the ratio of  $\frac{y_j}{y_k}$  becomes closer to 1.*

**Proof of Lemma 1:** For the occupation  $\mathbf{y}$  and we want to establish how the degree of skill mixing changes if the skill dimensions for  $j$  and  $k$  are to vary. The lemma can be simply proved by considering the skill mixing index for for this occupation. Let  $y_k = ry_j$  and denote  $y_j$  by  $y$ , the mixing index for  $\mathbf{y}$  is:

$$\frac{y + ry + A}{\sqrt{K} \sqrt{y^2 + r^2 y^2 + B}},$$

where  $A$  and  $B$  are two constants that don't depend on  $y_k$  and  $y_j$ . The above equation is maximized at  $r = 1$ . Therefore, for any  $y_j$ , the occupation is more skill-mixed if the ratio  $r$  is close to 1. This completes the proof. *Q.E.D.*

**Proposition 1** (Changes in Skill Mixing). *Consider an occupation  $\mathbf{y}_t = \{y_t^1, \dots, y_t^k, \dots, y_t^K\} \in S \subset \mathbb{R}^K$  within a closed skill space  $S$  of dimension  $K$ . Assume that firms operate the occupation with a production technology as described by equation (2) and under an occupational rental cost defined by equation (6). Under these conditions, occupation  $\mathbf{y}_t$  will show an increased degree of skill mixing given the following conditions:*

- (i) *The skills within the vector  $\mathbf{y}_t$  demonstrate an rise in complementarity in production (a decrease*

in  $\sigma$ ), provided that  $\sigma$  does not undergo a change in sign.

(ii) The skills within the vector  $\mathbf{y}_t$  exhibit an higher increasing marginal cost (an increase in  $\rho$ ), under the condition that  $\rho > \sigma$ .

Additionally, occupation  $\mathbf{y}_t$  will exhibit a increased degree of skill mixing in the  $(y_t^k, y_t^h)$  dimension if the ratio between  $(x_t^k, x_t^h)$  approaches unity.

**Proof of Proposition 1:** Lemma 1 posits that an occupation  $\mathbf{y}_t$  exhibits greater skill mixing if the ratio across all skill dimensions approximates 1. Therefore, establishing the influence of the ratio on the degree of skill mixing suffices. The initial step concentrates on any two skills within the vector  $(y_t^k, y_t^h)$ .

The firm value function indicates that the firm re-optimizes the choice of  $\mathbf{y}_t$  in each period. Consequently, within a given submarket at a particular time instance  $(\mathbf{x}_t, \mathbf{y}_t)$ , the firms' choices of  $\mathbf{y}_t$  remain uninfluenced by the continuation value, rendering it a static problem. Time subscript is subsumed in the subsequent proof.

By deriving the first-order condition of firms' optimization problems in the submarket  $(\mathbf{x}, \mathbf{y})$  and taking ratios, one obtains the following condition:  $\frac{y_h}{y_k} = \left(\frac{x_h}{x_k}\right)^{\frac{\sigma}{\rho-\sigma}}$ . Therefore, the ratio of firms' optimal skill requirement choices for any two skills  $(y_h, y_k)$  is influenced by three variables: the elasticity parameter of substitution in production  $\sigma$ , the degree of increasing marginal occupational rental cost  $\rho$ , and the ratio of worker skills in the submarket  $(x_h, x_k)$ .

From the equation, it is evident that as  $\sigma$  decreases, indicating an increase in skill complementarity in production,  $\frac{y_h}{y_k}$  will converge to 1 for any two skills  $(y_h, y_k)$ , under the assumption that  $\sigma$  does not change sign. Similarly, as  $\rho$  increases,  $\frac{y_h}{y_k}$  will approximate 1 for any two skills  $(y_h, y_k)$ , given that  $\rho - \sigma$  does not change sign.

The influence of worker skill bias on the degree of skill mixing of  $\mathbf{y}$  presents a more complex scenario, as a change in the ratio  $\frac{x_h}{x_k}$  does not directly imply a change in the ratio of other skill pairs. Consequently, to gauge its impact on the degree of skill mixing, the focus must remain on the  $(y_h, y_k)$  dimension. For this specific dimension, if  $\frac{x_h}{x_k}$  converges to 1, then  $\frac{y_h}{y_k}$  also approaches 1. Q.E.D.

**Proposition 2** (Changes in Wage and Job Finding). *Consider an occupation  $\mathbf{y}_t \in S \subset \mathbb{R}^K$  within a closed skill space  $S$  of dimension  $K$ . Assume that firms operate the occupation with a production technology as described by equation 2 and under an occupational rental cost defined by equation 6. Also, these firms offer a output share  $\omega$  to workers and have value functions described by equation 4. Further, let worker value described by equation 3. Under these conditions, workers in occupation*

$\mathbf{y}$  will earn a higher wage and have a higher job finding probability under condition (i) and (ii) of Proposition 1

**Proof of Proposition 2:**

*Wages:* To establish the change in wages, one need to show that the output of the worker-firm match increases as the elasticity parameter  $\sigma$  decreases and approaches 0 from 1, or if  $\sigma$  decreases in the negative range, consistent with skills becoming more complementary in production. At a particular output share rate  $\omega$ , such value changes of  $\sigma$  will lead to higher wages.

Now, let us obtain the first derivative of  $\sigma$  for the production function 2. WLOG, let's consider the case of two skills, and express  $y_1x_1$  and  $y_2x_2$  as  $m$  and  $n$ . The output of a worker-firm match can be expressed as  $q = (m^\sigma + n^\sigma)^{1/\sigma}$ . We can take log of the production function  $\ln(q) = \frac{1}{\sigma} \ln(m^\sigma + n^\sigma)$  and then take logarithmic differentiation that gives the following:

$$\frac{1}{q} \frac{\partial q}{\partial \sigma} = -\frac{1}{\sigma^2} \ln(m^\sigma + n^\sigma) + \frac{1}{\sigma} \frac{1}{m^\sigma + n^\sigma} (m^\sigma \ln(m) + n^\sigma \ln(n))$$

Solving for  $\frac{\partial q}{\partial \sigma}$  gives:

$$\begin{aligned} \frac{\partial q}{\partial \sigma} &= q \left[ -\frac{1}{\sigma^2} \ln(m^\sigma + n^\sigma) + \frac{1}{\sigma} \frac{1}{m^\sigma + n^\sigma} (m^\sigma \ln(m) + n^\sigma \ln(n)) \right] \\ \frac{\partial q}{\partial \sigma} &= q \left[ -\frac{1}{\sigma} \ln(q) + \frac{1}{\sigma} q^{-\sigma} (m^\sigma \ln(m) + n^\sigma \ln(n)) \right] \end{aligned}$$

In the case of the calibration of the model, since  $m$ ,  $n$ , and  $y$  are all in the range of  $[0, 1]$ , one can show that the above derivative is negative when  $0 < \sigma < 1$  or when  $\sigma < 0$ .

With respect to (ii) of Proposition 1, it is easy to see that since for the analysis of this paper, both  $(\mathbf{x}, \mathbf{y})$  are in the range  $[0, 1]$ , therefore the occupation rental cost is decreasing in  $\rho$ , so wage should increase as occupation rental cost increases.

*Employment:* For job finding probability, it suffices to show that  $p(\theta_t(\mathbf{x}, \mathbf{y}, \omega))$  is increasing in  $\sigma$  and  $\rho$ . This becomes simpler, since the above proof establishes that worker-firm output is increasing in both  $\sigma$  and  $\rho$ , so does firm's value  $J(\mathbf{x}, \mathbf{y}, \omega)$ . By the free entry condition in equation (5), at a fixed vacancy posting cost, an increase in  $J(\mathbf{x}, \mathbf{y}, \omega)$  implies a decrease in  $q(\theta_t(\mathbf{x}, \mathbf{y}, \omega))$  and therefore implies an increase in  $p(\theta_t(\mathbf{x}, \mathbf{y}, \omega))$  under constant return to scale matching technology. *Q.E.D.*

## B.2 Equilibrium Definition and Block Recursivity

In this section I define the a block-recursive equilibrium (BRE) for the economy following [Menzio and Shi \(2011\)](#). I further show that the equilibrium of the economy is unique and is block recursive.

**Definition 2** (Block-recursive Equilibrium). *Let  $\psi \in \Psi$  be the aggregate state of the economy, which is a distribution of agents across employment status  $e = U, W$ , skill profiles  $\mathbf{x}$ , occupational skill requirements  $\mathbf{y}$ , and output shares  $\omega$ .*

*A block-recursive equilibrium for this economy consists of value functions for both unemployed and employed workers  $U(\mathbf{x}) : S \rightarrow \mathbb{R}$ ,  $W(\mathbf{x}, \mathbf{y}, \omega) : S \times S \times [0, 1] \rightarrow \mathbb{R}$ , and their respective policy functions  $y'_U(\mathbf{x}) : S \rightarrow S \times [0, 1]$ ,  $y'_W(\mathbf{x}, \mathbf{y}, \omega) : S \times S \times [0, 1] \rightarrow S \times S \times [0, 1]$ ; firms' policy function  $J(\mathbf{x}, \mathbf{y}, \omega) : S \times S \times [0, 1] \rightarrow \mathbb{R}$  and corresponding policy function  $y'_J(\mathbf{x}, \mathbf{y}, \omega) : S \times S \times [0, 1] \rightarrow S \times S \times [0, 1]$ ; labor market tightness  $\theta(\mathbf{x}, \mathbf{y}, \omega) : S \times S \times [0, 1] \rightarrow \mathbb{R}_+$ ; and aggregate state  $\psi \in \Psi$  such that:*

1. *The worker's value functions  $U(\mathbf{x})$  and  $W(\mathbf{x}, \mathbf{y}, \omega)$  satisfy (3) for all states  $\psi \in \Psi$  and  $y'_U(\mathbf{x})$ ,  $y'_W(\mathbf{x}, \mathbf{y}, \omega)$  are the associated policy functions respectively*
2. *Firms' value function  $J(\mathbf{x}, \mathbf{y}, \omega)$  satisfy (4) for all states  $\psi \in \Psi$  and  $y'_J(\mathbf{x}, \mathbf{y}, \omega)$  is the associated policy function*
3. *The labor market tightness  $\theta(\mathbf{x}, \mathbf{y}, \omega)$  in each submarket  $(\mathbf{x}, \mathbf{y}, \omega)$  for all states  $\psi \in \Psi$  is consistent with free-entry condition in equation (5)*

From the above definition of block-recursive equilibrium that agents' value functions and policy functions, as well as the market tightness are independent of the aggregate state, only requiring that they are consistent with the aggregate state distribution of agents. Such an equilibrium is easier to characterize analytically and solve numerically. Note a key difference between the above definite of BRE and the one defined in [Menzio and Shi \(2011\)](#). In the economy studied in this paper, because I use the model to study the steady state equilibrium, the value functions, policy functions, and market tightness are entirely independent of the aggregate state. Whereas [Menzio and Shi \(2011\)](#) studies out-of-steady-state dynamics, so the value functions, policy functions, and market tightness are still depend on the aggregate productivity shocks, but are independent of the distribution of agents across employment status and match-specific shocks.

Now, I show that a block-recursive equilibrium exists and is unique.

**Proposition 3** (Existence and Uniqueness of BRE). *Under the model specification of linear utility and invertible and constant returns to scale matching function, also assume that the support for worker and occupation skill profiles  $S$  has bounded, then: i) all equilibria are block recursive as defined in definition 2; ii) there exists a unique block-recursive equilibrium.*

**Proof of Proposition 3:**

The proof first establishes the uniqueness of value functions  $(U, W, J)$ , as well as policy functions and market tightness  $(y'_U, y'_W, y'_J, \theta)$ ; then, the proof establishes their independence from aggregate state.

*Uniqueness:* I first show that the value functions for workers and firms as defined in equation (3) and (4) are contractions. Let  $\Theta = S \times S \times [0, 1]$ , which is bounded based on the assumption that  $S$  is bounded. Let  $B(\Theta)$  the space of bounded functions  $V : \Theta \rightarrow \mathbb{R}$  and the operator associated with worker or firm value functions denoted by  $T : B(\Theta) \rightarrow B(\Theta)$ . It is straightforward to verify that  $T$  satisfy monotonicity and discounting properties:

1. (monotonicity) For  $V, V' \in B(\Theta)$ ,  $V \leq V'$  implies  $T(V) \leq T(V')$
2. (discounting) For  $V \in B(\Theta)$  and  $\epsilon > 0$ ,  $T(V + \epsilon) =$

The above conditions establish that the operator  $T$  associated with either firm or worker values functions is a contraction under Blackwell's sufficient conditions. Therefore, the optimal values workers and firms obtain through dynamic optimization problems are unique.

Next, I show that the policy functions and market tightness are also unique. Since the optimal values firms and worker obtain for their dynamic optimization problems (3) and (4) are unique, the associated policy functions  $(y'_U, y'_W, y'_J)$  are also unique due to concavity of the production function defined in equation (2) and workers have linear utility over consumption. To show the uniqueness of market tightness, first note that since it is assumed that the matching function is invertible, one may directly obtain market tightness through the market clearing condition (5) with  $\theta > 0$ . The uniqueness of  $\theta$  then follows from the uniqueness of firms' value function.

*Independence of Aggregate State:* In the model economy, workers with different skill profiles  $x$  search in their own market, and firms with different skill requirements  $y$  post jobs

in these separated markets, therefore, one can establish that the value functions of firms, workers and the market tightness are all independent of the aggregate state  $\psi$ . I establish this argument more rigorous through a backward induction argument as in [Braxton and Taska \(2021\)](#). For this purpose, I introduce back time subscript in the notation.

At the terminal period  $t = T$ , for an employed worker, the continuation value is zero for  $T + 1$  onward, so the worker's dynamic programming problem does not depend on the aggregate distribution across states, and is equal to the worker's share of output  $W_T(\mathbf{x}, \mathbf{y}, \omega) = \omega f(\mathbf{x}, \mathbf{y})$ .

Similarly, the firm's value function also remains independent of the aggregate distribution  $J_T(\mathbf{x}, \mathbf{y}, \omega) = (1 - \omega)f(\mathbf{x}, \mathbf{y})$ . As a result, through the free entry condition in equation (5), the market tightness  $\theta_T(\mathbf{x}, \mathbf{y}, \omega)$  is also independent of the aggregate distribution.

Firms at  $T - 1$  make occupation design choices  $\mathbf{y}$  to solve the firm dynamic programming problem in equation (4); workers at  $T - 1$  make labor market search choices over occupations  $\mathbf{y}$  to solve the worker dynamic programming problem in equation (3); As long as  $\mathbf{y}$  is within a bounded interval bounded interval, the extreme value theorem assures at least one solution to this problem. This process is repeated stepping back from  $t = T - 1, \dots, 1$ , which completes the proof. *Q.E.D.*



### B.3 Identification of Parameters

First, I focus on identifying the elasticity parameters in production and occupation operation cost, denoted by  $\sigma$  and  $\rho$ . As highlighted by [Caselli and Coleman \(2006\)](#), the challenge arises when allowing for the endogenous choice of the efficiency of inputs under constraints, as the elasticity parameters cannot be separately identified. To overcome this challenge, I begin by estimating  $\sigma$  using the *relative wage within occupation* instead of relying on absolute wage levels.

Specifically, based on the model, the wage that workers receive per period is given by the share  $\omega$  of the output of the worker-firm match, reduced by the occupation design cost, formulated as  $w(\mathbf{x}, \mathbf{y}) = \omega f(\mathbf{x}, \mathbf{y}) - C(\mathbf{y})$ . Consequently, within each occupation, the difference in wage relative to a base worker type  $\Delta w(\mathbf{x}, \mathbf{y})$  can be articulated as follows:

$$\Delta w(\mathbf{x}, \mathbf{y}) = \omega \left[ \sum_{k=1}^K (x^k y^k)^\sigma \right]^{\frac{1}{\sigma}} - A, \quad (9)$$

where  $A$  is occupation-specific and does not depend on the cost parameter  $\tau$  or  $\rho$ . This formulation enables the identification of  $\sigma$  independent of the cost parameters. To carry out the estimation equation (9), I first adjust the wage for occupation fixed effects in order to account for  $A$  and  $\omega$ , and for other factors like ethnicity by gender, age, metropolitan status, individual year, years of education, census region, and urbanity fixed effects. These adjustments help control for other variables that might influence the worker-firm output and enhance the precision of the estimation. Next, I compute the within-occupation difference of the adjusted wage relative to the lowest skill type worker.<sup>62</sup> Last, I employ the maximum likelihood estimation (MLE) method to calculate  $\sigma$ .

I now turn to the identification of the cost parameters  $\rho$  and  $\tau$ . To begin with, note that the first-order condition of firms' optimization problems in the submarket  $(\mathbf{x}, \mathbf{y})$  can be simplified in ratios to:  $\frac{y_h}{y_k} = \left( \frac{x_h}{x_k} \right)^{\frac{\sigma}{\rho - \sigma}}$ , a relationship that exclusively depends on the parameters  $\sigma$  and  $\rho$ . With  $\sigma$  already estimated through MLE, the Simulated Method of Moments (SMM) then targets the skill ratio  $y_j/y_k$ , which aligns with the moment of the degree of hybridization of occupations. Further, for employed workers, the distribution of employment across various occupations is governed by wages  $w(\mathbf{x}, \mathbf{y})$ . Given the parameters

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<sup>62</sup>Refer to Section VI for an in-depth discussion on how worker skill types are calibrated.

described above, this functional relationship allows the estimation of  $\tau$ .

I'll now discuss how the vacancy posting cost  $c$  and the relative skill level of the high-skill worker  $\alpha_k$  are identified. Given the calibrated unemployment benefit  $b$ , the parameters of the matching function, and the parameters of the production and cost function, the identification process unfolds as follows. First, the free entry condition (5) and the value function of unemployed workers (3) reveal that the probability of exiting unemployment is solely determined by the vacancy posting cost. By targeting the level of unemployment,  $c$  is thus identified. Second, the identification of  $\alpha_k$  is achieved by examining the relative wage of high- to low-skill workers, expressed as  $\frac{w(\mathbf{f}\mathbf{x}^1, \mathbf{y})}{\mathbf{w}(\mathbf{x}^1, \mathbf{y})}$ , where  $\mathbf{x}^1$  is the calibrated skill level of the low-skill worker. Given the previously calibrated parameters, this relative wage depends only on the relative skill level of the high-skill worker, leading to the identification of  $\alpha_k$ . This completes the identification of all the parameters in the model.

## B.4 Calibration of Skill Supply

I carry out the calibration of two key aspects of skill supply variation: the Markov probability of worker skill adjustment over a single model period and the variation in worker skill supply spanning two data periods that the model aims to align with two steady states. I'll first delve into the details of the skill variation between data periods and then explore the skill evolution within a model period as guided by the Markov process, following the approach of [Lise and Postel-Vinay \(2020\)](#).

**Across-period Skill Supply Variation:** Considering the potential influence of skill supply variation on skill mixing, I calibrate the model to reflect workers' choices in occupation, college major (if attended), and employment status, in line with the approach of [Lise and Postel-Vinay \(2020\)](#). This calibration introduces variation in worker skill supply across two periods. Worker skills are adjusted based on the requirements of an occupation or a college major; they increase if the requirements exceed the original skills and decrease if the requirements are lower or if the worker is unemployed. The speed of this adjustment is asymmetric and skill-specific.

Specifically, following the estimates from [Lise and Postel-Vinay \(2020\)](#), as presented in online Appendix Table B1, a worker's skills accumulate at a rate of  $\gamma_j$  times the gap between the worker's skill  $j$  and the occupation's requirement for that skill each year. The value of  $\gamma_j$  depends on whether it relates to learning or depreciation (upward or downward accumulation). Additionally, workers can lose skills when not employed, with unemployment treated as requiring a zero level for all skills. However, I specify such that a worker's skill level cannot fall below their initial endowments. For changes in skills while in school, I specify that workers spend an average of three years learning the skills of their majors.

I incorporate two modifications into this framework. First, since [Lise and Postel-Vinay \(2020\)](#)'s estimates are based on weekly data, I adjust them by multiplying by the number of working weeks, set at 47. Second, I align [Lise and Postel-Vinay \(2020\)](#)'s estimates of cognitive, interpersonal, and manual skills with my analysis's categories of analytical, interpersonal, and routine skills.<sup>63</sup> Since [Lise and Postel-Vinay \(2020\)](#)'s estimates do not include computer skills, I use their cognitive skill estimates as a proxy.

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<sup>63</sup>Their exclusion restriction imposes that (i) the ASVAB mathematics knowledge score only reflects cognitive skills; (2) the ASVAB automotive and shop information score only reflects manual skills; (3) the Rosenberg self-esteem score only reflects interpersonal skills.

In calculating the skill adjustment, I first standardize both worker skills and occupation skill requirements. Then, for example, if a worker is employed in an occupation that requires a standard deviation higher in analytical skill compared to the worker's analytical skill, the worker will accumulate 0.36 standard deviations of analytical skill in a year due to learning on the job. Conversely, if a worker's interpersonal skill is higher than required, it will decrease by only  $3 \times 10^4$  standard deviations, almost remaining unchanged, as interpersonal skills are estimated to be very hard to lose.

**Markov Skill Supply Adjustment:** I now discuss the Markov process of skill adjustment. Specifically, considering each skill  $j$  in the worker's skill profile  $\mathbf{x}$  as an element of the finite set  $S$ , the evolution of this skill follows a Markov process  $\pi(x'_j | x_j, y_j)$ , conditional on the worker's current skill level and employed occupation. If a worker is matched with an occupation that requires a skill level exceeding his or her own ( $x_j < y_j$ ), the worker's skill  $j$  will adjust upward in the next period:  $x'_j > x_j$ , and the inverse applies for a worker whose skill is lower than the requirements of their current occupation.

The calibration of the Markov adjustment probability is conducted in a similar manner to that of the across-period skill supply variation. Since a model period corresponds to a quarter, the annual adjustment rates for different skills are divided by 4, resulting in  $\frac{\gamma}{4}$ . This value represents the rate at which worker skills approach to occupation skill requirements, and it is regarded as the probability that a worker's skill  $j$  will adjust to the corresponding value.

The key challenge in this calibration process arises when quantifying the model: both worker skill and occupation skill requirements are discretized as grid values. To accommodate this discretization, the probability that a worker moves up or down a grid for skill  $j$  based on the occupation is scaled as below.

The Markov probability of upward adjustment is determined by:

$$\frac{x_j^{up} - x_j}{y_j - x_j} \mathbf{1}(x_j^{up} < y_j) \times \frac{\gamma_j^{up}}{4}$$

Similarly, the Markov probability of downward adjustment is given by:

$$\frac{x_j^{down} - x_j}{y_j - x_j} \mathbf{1}(y_j < x_j^{down}) \times \frac{\gamma_j^{down}}{4}$$

Here,  $x_j$  represents the current grid value of worker skill  $j$ , while  $x_j^{up}$  or  $x_j^{down}$  denotes the value of worker skill  $j$  up or down a grid, respectively. The indicator variables  $\mathbf{1}(y_j < x_j^{down})$  or  $\mathbf{1}(x_j^{up} < y_j)$  evaluates whether the skill  $j$  grid value of the worker's current employed occupation is greater or smaller than the value of the worker's skill  $j$  grid. This means that a worker will only adjust up or down a grid if the occupation's skill is larger or smaller than the corresponding up or down grid value for the worker's skill. This process specifies the interplay between skill adjustment and occupation requirements, and allows for a precise calibration within the model's framework.

Table B1: Annual Skill Learning and Depreciation Rate

| O*NET Measure | NLSY Measure               | $\gamma_{school}^{learn}$ | $\gamma_j^{up}$ | $\gamma_j^{down}$ |
|---------------|----------------------------|---------------------------|-----------------|-------------------|
| analytical    | AFQT score                 | 0.33                      | 0.36            | 0.10              |
| interpersonal | Deming (2017) social skill | 0.33                      | 0.05            | 0.00003           |
| routine       | ASVAB                      | 0.33                      | 1               | 0.36              |
| computer      | OCC/Major's 2005 Value     | 0.33                      | 0.36            | 0.10              |

Notes: This table illustrates for each O\*NET skill measure, its corresponding skill measure using NLSY79&97 data, and the learning and depreciation rate for these different skills. The AFQT is the same as the one used by [Altonji, Bharadwaj, and Lange \(2012\)](#) followed by [Deming \(2017\)](#), which controls for age-at-test, test format, and other idiosyncrasies. [Deming \(2017\)](#)'s social skill measure consists of sociability in childhood and sociability in adulthood in NLSY79, and two questions from the Big 5 inventory gauging the extraversion in NLSY97. The average of workers' ASVAB mechanical orientation and electronics test scores are used for mechanical skill. Since ASVAB scores are not available for the NLSY97 survey, they are imputed based on predictive regression using the NLSY79 survey. Workers' occupations' or college majors' O\*NET computer skill scores in the year 2000 are used as their endowed computer skill. The skill accumulation/depreciation rate is directly from [Lise and Postel-Vinay \(2020\)](#)'s estimates based on monthly data converted to annual values. Skill learning/depreciating while attending college is specified to be 33% per year.

## B.5 Algorithm and Solution Method

The quantitative method used for estimation is SMM. Given the parameters in the model that are internally estimated  $\Theta = \{\sigma, \rho, \tau, c, \alpha_k\}$ , each iteration of SMM first solves the steady state firm and worker policy function, after which a panel of worker is simulated to obtain the equilibrium distribution of labor market outcomes.

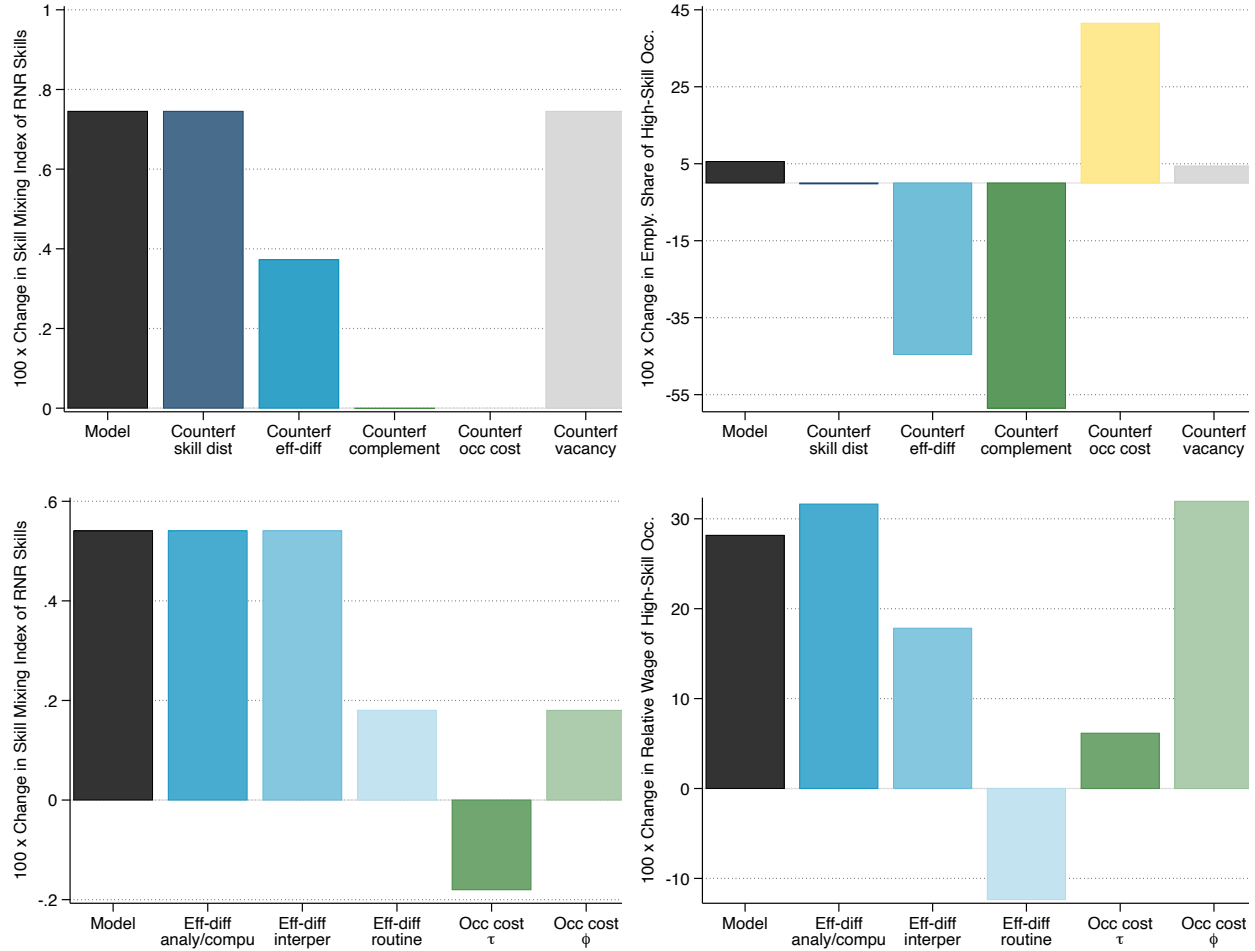
Specifically, to find the steady state policy of agents, I use value function iteration:

1. Fix the number of periods  $T$
2. Starting from the terminal period  $T$ , solve the firm problem as in equation (3)
3. Use the free entry condition in equation (5) to obtain the market tightness  $\theta_T(\mathbf{x}, \mathbf{y}, \omega)$
4. With the market tightness, solve the worker dynamic programming problem in equation (3)
5. Repeated stepping back from  $t = T - 1, \dots, 1$
6. Check if the difference in worker value  $U_{t+1} - U_t$ ,  $W_{t+1} - W_t$  and the firm value  $J_{t+1} - J_t$  is less than a predetermined tolerance level. If yes stop, if not increase  $T$  and go back to first step

Next, I simulate 10,000 workers for  $T(T > 200)$  periods, burning the first 40 periods to obtain distribution of labor market outcomes across different occupations and worker types. Finally, the SMM procedure minimizes the Euclidean distance between the model-implied moments and the same moments obtained from data.

## B.6 Additional Counterfactual Results

Figure B1: Model Counterfactual



Notes: These figures plot the model generated changes in skill mixing in high-skill occupations (panel 1) and changes in employment share of high-skill occupation (panel 2). Different model channels are shut down individually by eliminating the relative calibrated values to highlight the contribution of each channel. The full model has all the model features. The values of skill complementarity in production, cost of skills in occupation operation, efficiency differential, and vacancy posting cost across the two periods are shown in Table 6. Worker skill supply distribution variation across the periods are calibrated according to Table B1. Panel (3) and (4) depict the model generated changes in skill mixing in low-skill occupation and the relative wage of high-skill occupations by shutting down the skill efficiency differential for analytical/computer, interpersonal, and routine skills individually; also by shutting down  $\tau$  and  $\phi$  individually.