Discussion: Fairness and Frictions
The Impact of Unequal Raises on Quit Behavior

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Study Overview

Main Research Questions:

- How do own-wages and peer-wages influence employee quit/separation behavior?
- What role does fairness (relative pay) play in shaping turnover decisions?

Context:

- Conducted in a large U.S. retail chain with standardized compensation policies.
- Focused on entry-level, low-wage sales jobs during federal minimum wage hikes in 1996 and 1997.

Methodology:

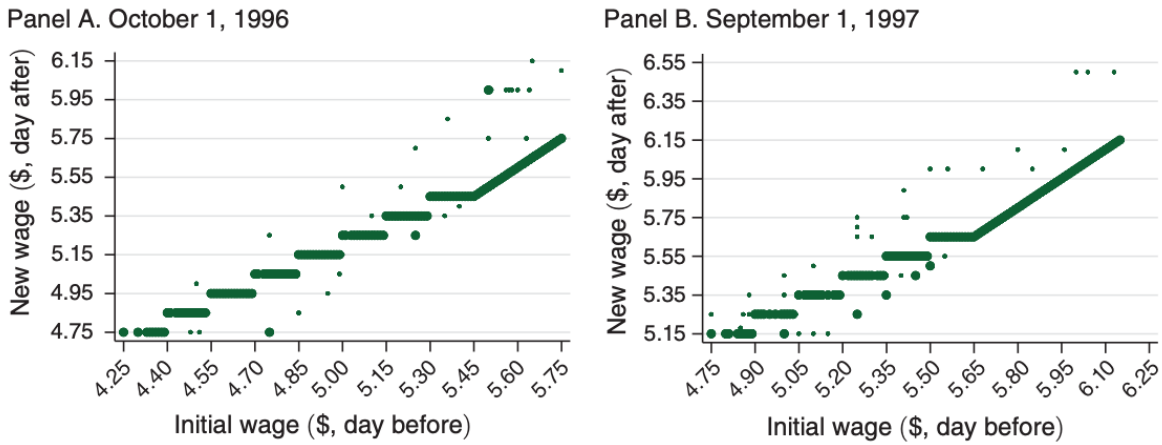
- Quasi-experimental regression discontinuity (RD) design leveraging step-function wage increases.
- Separate analysis of own-wage and peer-wage effects.

Structure

Theory:

- One-shot Job Ladder Model with peer wage comparisons.
- $S(w, w_p) = \delta + \lambda \left[1 - F\left(w + \frac{v(w - w_p)}{v_0}\right)\right]$

Data:



Stacked RDD: Own-Wage Effects:

- $S_{iy}^m = \beta \cdot w_{iy} + f_y(w_{0iy}) + X_{iy}\Gamma + \lambda_{z(i)} + \epsilon_{iy}$

Stacked Fuzzy RDD: Peer-Wage Effects

- $S_{iy}^m = \beta \cdot w_{iy} + \delta \cdot w_{jy} + f_y(w_{0iy}) + g_y(w_{0jy}) + X_{ijy}\Gamma + \lambda_{z(i)} + \epsilon_{ijy}$

Key Findings

Own-Wage Effects:

- A \$0.10 increase in own wages **reduces** the quit probability by 0.9 - 6.1 percentage points, depending on the timeframe.

Peer-Wage Effects:

- Higher peer wages significantly **increase** quit rates, especially when peers earn more (disadvantageous inequity).

Broader Insights:

- Fairness concerns (relative pay) outweigh market-driven wage comparisons.
- Uniform raises mitigate turnover by reducing perceptions of inequity.

Technical details:

- Asymmetry, Signaling, Decomposition, Heterogeneity
- Falsification

Strengths of the Presentation

Clear Structure, Clear Decomposition:

- Break down the long and complex paper into digestible and structured parts.
- Focus on the key analysis and findings, concise on the technical details.

Have given suggestions:

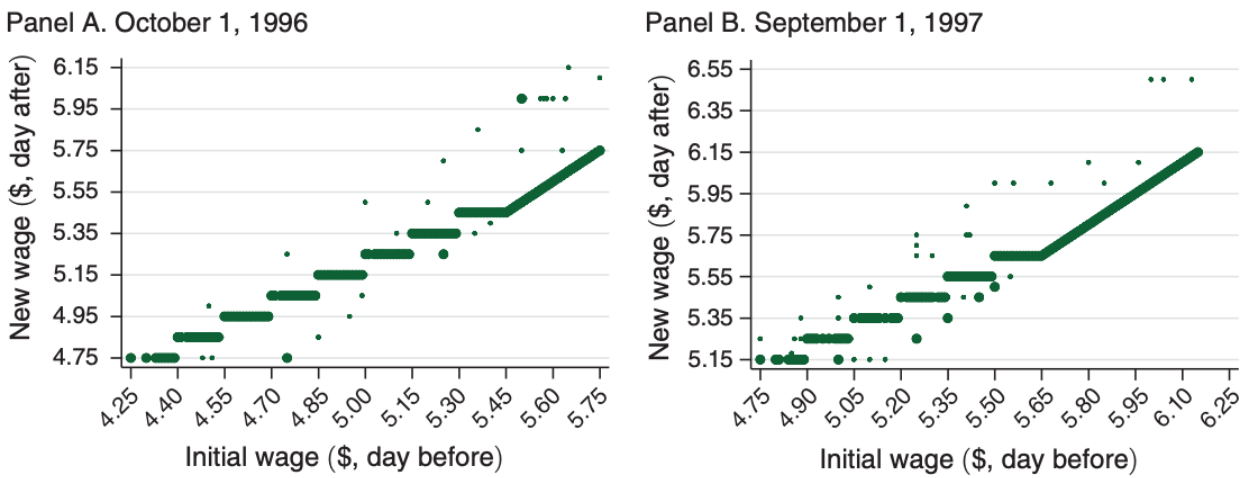
- Not only pointed out the weaknesses, but also suggested solutions.
- And the suggestions are constructive and feasible.

Two blue papers, a big challenge:

- Blue paper is already a challenge, not to mention two blue papers.

Potential Improvements of the Presentation

1. **Audience may need more clarity in methods:**
   - What is the technology/principle behind the RD design?
   - And how it works in this model?
2. **Lack of Visual Aids:**
   - Diagrams or graphs could help illustrate complex models and data.
   - Tables of key findings?
   - For example,



RDD technology in this model

A typical RD model looks like:

$$Y_i = \alpha + \beta \cdot D_i + f(X_i) + \epsilon_i,$$

where D_i is the treatment indicator, and $f(X_i)$ is the smooth function. And $\beta = \mathbf{E}(Y_i^1 - Y_i^0 | X_i = \textit{jump point})$.

In this paper:

$$S_{iy}^m = \beta \cdot w_{iy} + \delta \cdot w_{jy} + f_y(w_{0iy}) + g_y(w_{0jy}) + X_{ijy}\Gamma + \lambda_{z(i)} + \epsilon_{ijy},$$

so $\beta = \mathbf{E}(S_{iy}^{m,1} - S_{iy}^{m,0} | w_{0iy} = \textit{jump point})$, own wage effect,
and $\delta = \mathbf{E}(S_{iy}^{m,1} - S_{iy}^{m,0} | w_{0jy} = \textit{jump point})$, peer wage effect.

w_{iy}, w_{jy} serve as indicators: $w_{iy} = \begin{cases} \bar{w}_{iy} & \text{if } w_{0iy} > \textit{jump point} \\ \underline{w}_{iy} & \text{if } w_{0iy} < \textit{jump point} \end{cases}$

Weaknesses of the Paper

Weak theory, with lack of dynamics:

- Unlike dynamic McCall model and DMP model, the worker in this paper takes only one-shot decision.
- However, the worker may consider future's merit increase, as memtioned in the paper, when deciding to quit or transit.

Weakness of RDD:

- RDD estimates LATE (Local - ATE), therefore, the results apply only around the jump points.

Replicability?

- Although the results of this paper are not against common intuition, the significance may be questionable in other datasets.

Additional Connections to Social Preference Theory

Need more replications:

- However, perfect datasets like this with naturally exogenous treatment are rare.
- In different cultures or industries, the results may vary.

Thank you!