Nond Prueksiri

ECON 613 – Reading Note

Card, Cardoso & Kline (2014), "*Bargaining, Sorting, and the Gender Wage Gap: Quantifying the Impact of Firms on the Relative Pay of Women"*

Motivation

With very rich employment data along with firm data from Portugal, the authors matched the two dataset to estimate gender firm-specific pay premia using rent-sharing model. This is to quantify (1) gender pay premium gaps, and (2) to what extant sorting and bargaining can explain the gaps.

Methodology: Model, Specification and Measurement Issues

The paper employs *Abowd, Kramarz and Margolis'* "Additive Worker-firm Effects Model" (AKM) to estimate (by OLS, with the assumptions proved to be "approximately satisfied") for the pay premia for both men and women controlling for individual and firm. The specification of the model is that wage can be explained by (1) an individual permanent component, (2) a gender-firm-specific wage premium and (3) a composite error. (arises from time-varying factors that affects firms, individual matching surplus, and a transitory component) The gender-firm-specific wage premium are also normalized by the same effects of low valued-added firm where the cut-off of low valued-added firm is to be estimated by bivariate regression models. (This is to make sure that we recognize those low value-added firms pay no premium.) Then, the difference between pay premia for each gender is decomposed by Oaxaca wage decomposition method into a sorting effect (expected wage difference given same gender individuals working for different jobs (job that usually employs male vs female)) and a bargaining effect. (expected wage difference given both genders working for the same job)

Findings and Re-interpretation

The descriptive evidence from matched employer-employee data shows that men see a larger change in wage due to job moving between the same sets of firms than women which can be implied that men have more bargaining ability than women. Meanwhile, the estimation results from AKM model suggest that women earns 10% less wage premium than men. Furthermore by Oxaca-style decomposition, sorting effects explain about two-third of 20% and bargaining effects explain about one-third of the wage premium gaps, respectively. In addition, women are found to be more likely to work at lowly productive firm paying low wage premium for both genders. **Re-interpretation:** from the results, sorting effects tend to be more important, and this it is consistent with selection rules of women. (e.g. in Mulligan & Rubinstein (2008)) Moreover, one reason why bargaining effects explain less is that bargaining may not be very effective in low value-added firm (as they might not find it feasible to offer high wage) where women tends to work. (by sorting effects) This is consistent with the finding that bargaining plays larger role in wage premium gaps among more educated workers.