Masterclass: Firm Heterogeneity-Implications for Wage Dispersion, Growth, and Trade

Dale T. Mortensen, Northwestern
25 October – 26 October 2007 (Institute for Fiscal Studies, London)

Programme

Thursday 25 October

10.30 – 11.00 Coffee and registration

11.00 – 13.00 **Session 1: Wage Dispersion and Job-to-Job Flows**

Differences in wages paid to observable equivalent workers is ruled out by the law of one price. However, recent evidence on worker flow supports the hypothesis that wage dispersion exists by demonstrating that workers move in respond to wage differences from lower to higher paying employers. The models and evidence underlying this work are presented.

References:

Jolivet, G., F. Postel-Vinay and J.-M. Robin (2006). "The Empirical Content of the Job Search Model: Labor Mobility and Wage Dispersion in Europe and the U.S.", *European Economic Review,* 50(4), 877-907.
Christiansen, B.J., R. Lentz, D.T. Mortensen, G. Neumann, and A. Werwatz (2005). "Job Separations and the Distribution of Wages," *Journal of Labor Economics* (January) 23: 31-58.

13.00 – 14.00 Lunch

14.00 – 16.00 **Session 2: Productivity and Wage Dispersion**

Large and persistent differences in firm productivity in combination with labour market frictions that create job-worker specific rents generate wage dispersion. Alternative models of wage determination set in this environment that are able to link productivity and wage dispersion are presented and evaluated.

References:

Mortensen, D.T. (2003). *Wage Dispersion*, MIT Press.
Cahuc, P., F. Postel-Vinay and J.-M. Robin (2006). "Wage Bargaining with On-the-job search: Theory and Evidence," *Econometrica,* 74(2), 323-64.

Friday 26 October

9.30 – 10.00 Coffee

10.00 – 12.00 **Session 3: Productivity Dispersion, Reallocation, and Growth**

The existence of productivity dispersion suggests that the process of resource reallocation from less to more productive firms may be an important determinate of aggregate TFP and growth. A specific model that formalizes and quantifies this argument is presented.

References:

Klette, T. J. and S. Kortum (2004). "Innovating Firms and Aggregate Innovation." *Journal of Political Economy* 112, no. 5: 986-1018.
Lentz, R. and D.T. Mortensen (2006). “An Empirical Model of Productivity Growth Though Product Innovation” NBER Working Paper #111546.

12.00 – 13.00 Lunch

13.00 – 15.00 **Session 4: Productivity Dispersion and International Trade**

The existence of fixed costs of entry into foreign markets implies that more productive firms should engage more actively in international trade. A dynamic model of firm growth that embeds this element of the “new trade” theory is outlined and its implications are derived and compared with micro trade data.

References:

Eaton, J., S. Kortum, and F. Kramarz (2004). "Dissecting Trade: Firms, Industries, and Export Destinations" *The American Economic Review*, Vol. 94(2): pp. 150-154
Pedersen, N.K. (2007). “A Quantitative Model of International Trade and Firm Dynamics with Heterogenous Firms,” Northwestern University.

15.00 **Close of Masterclass**