Wage Determination and Firm Size Dynamics

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Abstract

Models with multiple-worker firms and search frictions have been the focus of a lot of recent studies; Cooper, Haltiwanger, and Willis (2007), Elsby and Michaels (2007), Hobijn and Şahin (2007), Acemoglu and Hawkins (2006), and Ebell and Haefke (2004, 2006). The hiring and firing decisions of multiple-worker firms crucially depend on the way wages are determined. However, there is no broad consensus on which is the empirically most relevant wage determination mechanism. In this paper, we compare the empirical implications of four different wage setting mechanisms in a model of firm-size dynamics based on Hopenhayn and Rogerson (1993). In particular, the four mechanisms that we consider are: (*i*) Take-it-or-leave-it offer to workers, as in Cooper, Haltiwanger, and Willis (2007) and Hobijn and Şahin (2007) (*ii*) intra-firm individual worker bargaining with non-binding contracts, as in Stole and Zwiebel (1996a, b), (*iii*) intra-firm collective bargaining with non-binding contracts, as in Ebell and Haefke (2004, 2006), and (*iv*) wage-posting, as in Acemoglu and Shimer (1999). We compare the results of our model with the evidence on the relationship between firm size and wages surveyed in Oi and Idson (1999).

Keywords: Labor markets, productivity, real rigidities, search frictions

JEL-codes: C78, D21, E24, J6, L26

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