

Resubmission of MS 74

“Wage Dispersion, Over-Qualification, and Reder Competition”

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October 29, 2007

Included a revised version. I thank the referees for their suggestions. As I have given my response to the issues raised by both referees earlier, I do not repeat that here but just state the major changes I have made.

1. In response to the criticism of the first referee I that the term “qualification structure” is infelicitous, I have it replaced it by “quality mix.”
2. In response to the critique of both referees that I have addressed the issue of wage dispersion insufficiently, I have added a section on wage dispersion (Section 9). It should be clear that the proposed view is consistent with the experience, while the wage-competition model is not. It should be also clear that the theory presented here does not *prove* the parallel increase in wage dispersion and over-qualification *more geometrico*, it simply offers a (to me) plausible rationalization.
3. In response to the criticism of the first referee I have made it clear in the introduction that I interpret “skill biased technological change” as “heterogeneity biased technical change.”
4. In response to criticism of the first referee that the assumption of wage compression may be prone to misunderstanding, I have added an appendix where I show that postulating performance pay leads to similar results, and imperfect mobility by itself induces wage compression.
5. In response to the critique of the second referee that it is unclear what I mean by “reservation wage” I have sharpened some phrasings.

All formulae in the main text have remained unchanged. So the referees may not need to check them again.

The calculations in the appendix are new. I attach Mathematica printouts. This may make it easier to check these if the referees feel this necessary.

Unfortunately I cannot make the formatting of figures 1 and 2 consistent, as I have only the data depicted there at my disposal.

I thank the second referee also for his helpful “minor points” which I have incorporated into this version.