

# Reply to Referee 2 on “Selection Wages and Discrimination”

October 9, 2009

Thank you for taking the time and trouble to read the paper and provide suggestions. In the following I comment briefly on your points and suggest in which way I shall try to deal with them.

**1. One of the main difficulties of the paper is that the monopsony and efficiency wage models provide similar explanations for hiring behavior of firms; in this respect I see them more as complements than substitutes for understanding gender wage differentials. I would recommend the author to discuss the paper in strict comparison with those models, showing for example as standard results for monopsony and efficiency wages can be obtained in his model when perturbing some parameters.**

I agree with the referee and see the monopsony and selection wage stories as not mutually exclusive. Empirically the approaches can be distinguished. I shall comment on that in a revised version in case the paper gets accepted. I shall give some further references to the literature in order to position the paper.

**2. There is no on-the-job search in the model; this is the fundamental source of wage dispersion in equilibrium search models of the Burdett and Mortensen (1998) type. How can workers move from one firm to the other? The author assumes the number of jobs to fill is fixed; however, in the rest of the paper, it looks like this number can change.**

As I see it, it is not quite right that there is “no on-the-job search in the model.” I wrote on page 3 f.:

“Note that labor supply is to be conceived as comprising all workers that could be hired by the firm under consideration, irrespectively of whether they are employed elsewhere, or unemployed.”

This was intended to clarify that workers may searching on the job, or from unemployment. I shall try to clarify further in a revised version.

Further, the model is concerned with the wage setting of a single firm, rather than with the market outcome. It assumes wage dispersion, rather than aiming to explain that. The discussion of market implications is, in the section on the social multiplier, rather fragmentary. I shall try to improve that.

The number of jobs to be filled is taken as given, but the firm can decide to fill it with either men or women. The number can be any number, though, and the assumption is therefore not restrictive in any substantial way. (See also equation (12).) The theorem shows that, under the assumptions given there, wage discrimination will result. I shall try to clarify.

**3. [T]he empirical evidence for lower elasticity of labour supply to the individual firm for women is not very robust; still there is a recent contribution by Barth and Dale-Olsen (2009, Labour Economics) that provides some convincing evidence on this point.**

Thank you for alerting me to the study by Barth and Dale-Olsen. It seems to confirm the assumption about supply elasticities faced by the firm. though. The other referee alerted me to the study by Ransom and Oaxaca (2008) which again confirms the same thing. I do not know studies pointing in the opposite direction, so I am unsure to what your remark about the lack of robustness may refer. I shall however, amplify on the theoretical point that market supply elasticity of women may be lower than that of males, while the supply elasticities faced by the firm may be reverse.

**4. The paper is a theoretical one, however, it would be interesting to simulate or calibrate it on real data in order to obtain better quantitative results.**

Thank you for this suggestion. I shall try to give some quantitative guesses, based on the supply elasticities found in the literature I cite. Yet these estimates are very problematic, as estimated elasticities depend on the time frame chosen. (This was my reason in 1982 for recasting the monopsonistic theory in terms of what is now known as “dynamic monopsony.”) Maybe I find a way to produce guesses, though.

Further, I thank you for your “minor points” and shall take care of them.