Referee Report on MS 333
"Selection Wages and Discrimination"
by Ekkehart Schlicht

This very interesting and convincing paper addresses gender discrimination at the labor market using a selection wage reasoning. In a labor market populated by heterogeneous workers in terms of their productivity, every firm is able to attract more applicants by raising its wage and as a consequence is able to increase its hiring standard to fill a given number of vacancies. This constitutes a trade-off between the firm's labor costs and the average productivity of its workforce, optimally balanced by the selection wage. If women supply labor less elastically to the firm than men – all other things being equal –, the productivity-enhancing impact of higher wages is less pronounced for them, and the firm optimally chooses a lower selection wage for women in equilibrium. Thus, a gender wage gap emerges, even though firms do not have a taste for discrimination against women and men and women do not differ in their productivity characteristics just because women and men differ in their supply behavior.

The paper is well written and carefully discusses the selection wage mechanism at the level of the individual firm and its relation to discrimination at the level of the market. The referenced evidence on gender differences in labor supply behavior is convincing. I particularly like the discussion on the feedback of the gender wage gap on social roles. The mathematical analysis is correct and thorough.

I have only a few little comments/proposals:

- As is correctly noted by Schlicht, the discrimination story presented is both a variant of the efficiency wage and – to some extent – of the monopsonistic approach. In both approaches, wages are set unilaterally by employers, who do not face a horizontal labor supply curve and therefore have some discretion in wage setting. It would be interesting to differentiate between the monopsonistic and the selection wage approach empirically. Is there any obvious way to do that?
- Another advantage of the selection wage explanation of gender discrimination based on gender differences in labor supply behavior over the monopsonistic approach that one might like to mention is that it allows for involuntary unemployment of workers in equilibrium.

- Apart from those references given, there is another convincing recent paper by Ransom & Oaxaca (2008) showing empirically that women supply labor less elastically to the firm that deserves to be referenced.[1]
- In equations (4) and (5) θ_1 should replace θ_{max}.

I clearly recommend the paper for publication.

[1] Michael R. Ransom & Ronald L. Oaxaca (2008), "New Market Power Models and Sex Differences in Pay," Working Paper # 1110, Princeton University, Industrial Relations Section