Referee Report for the Paper

SELECTION WAGES AND DISCRIMINATION

MS 333

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The paper provides a theoretical model of the labour market to explain gender wage differentials; in particular, it is essentially a mixture of a monopsonistic and efficiency wage model of the labour market. The model is set up in a search friction environment; as firms make take-it-or-leave-it offers, they can attract more (and better) workers, thus the hiring function is increasing in wage offers. As a consequence, by paying higher wages, firms increase average productivity of their workforce. However, as higher wages also imply higher labour costs, the firm faces a trade-off between wages and productivity; in the model, wages are called "selection wages". As men and women react differently to the wage productivity differentials, gender differences emerge in equilibrium.

The idea of the paper is interesting; to the best of my knowledge, it represents a first attempt to link these models. Monopsony and search models are usually thought to elaborate on within groups wage differentials, while efficiency wages are usually used to explain involuntary unemployment (or inter-industry wage differentials), still there are applications in which they are used to explain other labour market facts. In my opinion, linking these two strands of literature has merits, the paper is also clear and substantially easy to read; still, there are a number of comments the author could deal with, or at least discuss.

Main comments.

1. One of the main difficulties of the paper is that the monopsony and efficiency wage models provide similar explanations for hiring behaviour 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. A nice example is provided on page 6 when discussing the elasticity of productivity. Some further references for the theoretical monopsony and efficiency wage literature could help in positioning 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. Please explain.

3. The author briefly discusses the relevance of some empirical results for monopsony and search models. I have two points in this respect. Firstly, the 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. In footnote 2 on page 13, the author correctly discusses about the relationship between the labour supply elasticity to the market and the elasticity to the individual firm. Usually, the former is higher for women, while the latter is higher for men; are these predictions confirmed by the theoretical model? Further elaboration on this point can be useful.

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. I understand this is beyond the scope of the paper, but some simple graphs could help to better interpret the results, especially when discussing possible policies against discrimination in section 4. Another interesting extension of the paper would be to include wage-tenure profiles as they are interpreted as an increase in the productivity of workers for their firm specific capital. Again this is beyond the scope of the paper.

Minor points.

- In the abstract, the author says "...As men react more strongly to wage differentials than females, the trade-off is more pronounced for men." The reader could assume wage differentials are differences in pay across firms; but they have to be interpreted as differences between wages and productivity. The author could better clarify this point.

- On page 3, the sentence "...An increase of the market wage level acts like a decrease of the wage offer on the marginal effect of wage increases..." is not clear.

- On page 3, reference to Figure 2 has to be replaced with Figure 1(b)?

- Productivity is first denoted by θ and then by a. It is not clear if the latter is average productivity, probably using a can be misleading. Please clarify.

- On page 7, before equation (12), it is written "The firm has to man n jobs..." I don't understand what "man" means

- Please, check the footnote numbering.

My overall evaluation of the paper is positive; however, I think the paper needs some further small revisions.