Firm Heterogeneity in Skill Returns

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Abstract

We develop an equilibrium model of skill demand with multi-dimensional firm heterogeneity. The model delivers sorting due to firm-specific skill returns, which we estimate using Swedish population data on workers' cognitive ability. We find that: (i) the return to skills varies considerably across firms; (ii) more able workers sort into firms with higher returns; (iii) firm-specific wage premia, independent of workers' abilities, persist after controlling for selection. Firm-level heterogeneity accounts for over one third of wage dispersion. Firm-specific skill biases play a key role for worker sorting and for the evolution of the aggregate return to skills.

(with Khalil Esmkhani and Giovanni Gallipoli).