Compensating Differentials in Experimental Labor Markets

Jeffrey Carpenter, Peter Hans Matthews, Andrea Robbett

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Highlights

- We construct experimental, real-effort labor markets and offer an evaluation of the theory of compensating differentials.
- Consistent with the theory, we find that riskier firms must pay significantly higher wages to attract workers.
- Further, when workers are mobile, they sort into firms according to their attitudes towards risk and, as a result, the compensating differential shrinks.
- Last, we are also able to mimic the biases associated with observational studies, an underappreciated application of economic experiments.