

Estimating a Structural Equilibrium Job Search Model to Evaluate the Introduction of a Uniform Minimum Wage in Germany

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January 2016

PRELIMINARY - DO NOT CITE OR CIRCULATE

Abstract

In this study, we estimate an econometric structural equilibrium search model to ex-ante simulate the introduction of a uniform minimum wage in the German labour market. We use the model to gain a better understanding about the magnitude of search frictions and, thus, the extent of employers market power in the German low-wage sector. To accommodate a wide range of employment responses, we estimate the model by Bontemps et al. (1999), which allows for negative, zero or positive employment effects. We take the model to large-scale administrative German data, and validate our estimations by comparing our predictions to the results from quasi-experimental studies on the introduction and changes in sectoral minimum wages. We then use the model to conduct a variety of policy simulations, including the systematic variation of general minimum wages over a large range of values.

Keywords: minimum wage, job search, Germany

JEL-Code: J31; J51; J64

*Address of correspondence: Nicole Guertzgen, Institute for Employment Research (IAB) of the German Federal Employment Agency (BA), Regensburger Str. 104, 90478 Nürnberg, Germany. Holger Stichnoth, ZEW Centre for European Economic Research, L 7.1, 68161 Mannheim, Germany, E-Mail: Nicole.Guertzgen@iab.de, stichnoth@zew.de. This preliminary version of the paper shows results for a simplified version of the model, without heterogeneity in workers' opportunity costs of employment. The slides attached to the paper contain the estimation results for the actual model, as well as the simulation results for the minimum wage.