

**Educational Mismatch and Wages in Spain:
New Evidence with Panel Data**

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The aim of this paper is to analyze the incidence of educational mismatch in the Spanish labor market, and the wage effects of overeducation and undereducation. We use a longitudinal data source for the period 1994-1998 -the European Community Household Panel- in order to compare the results with those based on cross-section data. Using pooled OLS estimated earning functions confirm the main conclusions of the existing empirical literature: the wage penalty of educational mismatch. Overeducated and undereducated workers earn less than workers with the same level of education who work in occupations for which they are adequately educated. Nevertheless, this penalty decreases when we consider in the equation additional regressors to capture the observed heterogeneity of the individuals. Moreover, when we control for unobserved individual characteristics by the random effects model, the coefficient estimates of the educational mismatch variables reduces its magnitude and even become insignificant in some cases. Therefore, we interpret these results in the sense that taking account for unobserved heterogeneity is important when analyzing the wage effects of educational mismatch.

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