

**Skill Wage Premiums, Employment, and Cohort Effects
in a Model of German Labor Demand**

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In a promising approach to consistently operationalize the interrelation between employment and wage structures, Card and Lemieux (2001) analyze skill wage differentials in a supply and demand framework that includes age as an additional dimension of heterogeneity. This paper extends the analytical framework and confronts it with the IAB employment sample (IABS) data for Germany. After having identified cohort effects in skill wage premiums and in the evolution of relative employment measures, we estimate elasticities of substitution between employees in three different skill groups and between those of different age. Compared to estimates in the related literature, our elasticities appear rather high. Drawing on the estimated parameters, we simulate the magnitude of wage changes within the respective skill groups that would have been necessary to halve skill-specific unemployment rates in 1997. The required wage reductions nominally range from 8.9 to 11.3% and are the higher the lower the employees' qualification. We conclude that, compared to the reference situation of reduced unemployment, there has been too little wage dispersion across skill groups.

Keywords: Labor Demand, Heterogeneity, Age, Skill, Wage Structure, Cohort Effects, Unemployment.

JEL-Classification: J21, J31, E24.