

The impact of education and mismatch on wages: the USA, 1986 – 1996

**Joan Muysken
Andrea Weissbrich
Claus-Henning von Restorff**

Department of Economics and MERIT, University of Maastricht, P.O. Box 616, 6200 MD, Maastricht,
the Netherlands, tel.: 0031-43-3883821; e-mail: j.muysken@algec.unimaas.nl

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ABSTRACT

In analysing the impact of education on wage differentials and wage growth, we use next to personal characteristics (e.g. education and experience) also job characteristics (e.g. skills required) to explain wages. We estimate wage equations on individual data for the USA, 1986 – 1996. When discussing observed and previously unobserved heterogeneity it turns out that personal characteristics like education and experience explain about half of the variation in wages. At least 20 per cent is explained by variation in job characteristics. When comparing the results with similar research for the Netherlands, the returns to experience are the same in both countries, while the premiums on education and in particular required skills are much higher in the US.

Keywords: wage inequality, overschooling, mismatch, unobserved heterogeneity