Bundling on the Labor Market
From Workers-to-Firms Sorting to Wage Markdowns

Abstract

The labor market we study is one of perfect competition where a continuum of heterogeneous workers supplies multidimensional skills to a continuum of heterogeneous firms, which produce output aggregating their employees' skills as inputs of a concave production function.
At equilibrium, the introduction of a single friction -- the bundling of workers' skills -- results in a rich workers-to-firm sorting and generates wage ``markdowns''. The structure of sorting matches each worker's comparative advantage in skills with each firm's technology. The (unique) optimal wage schedule is convex and skills' prices vary across firms. As a consequence of convexity, generalists (endowed with multiple skills) face a wage markdown when compared with their equivalent combination of specialists (i.e. endowed with a limited skill-set) in this purely competitive economy (but for the bundling friction). In equilibrium, the wage is shown to be log-additive in worker quality and a worker-to-firm sorting effect, which reflects the firm's productivity when the production function is non-homothetic. Inequality, explored using comparative statics, has both a between- and a within-firms origin.

This paper is joint work with Philippe Choné and Oskar Skans.

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