

Firm Beliefs About Wage Setting

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This paper yields new insights into why similar workers are paid differently by surveying Danish firms on their belief about wage setting and linking responses to administrative data. We first assess whether firms correctly perceive their actual position on the wage distribution by asking whether they pay higher or lower wages than firms competing for the same workers and comparing the answers to objective wage measures. We find that a substantial minority of firms misperceive their position on the wage distribution. Inaccurate belief is more likely to occur for smaller and younger firms. Inaccurate beliefs is associated with higher workers' separation rate. We then document firm's motives to set higher or lower wages than their competitors. The main motive for setting high wages is in line with search models, i.e., to retain and attract new employees. Efficiency wage and rent-sharing motives come next. Compensating for negative job characteristics is the least common motive to set high wages.

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