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Title of the paper: "The accuracy of predicted wages of the non-employed and implications for policy simulations from structural labour supply models"

Abstract: The focus of this paper is on the accuracy of predicted wages for the non-employed. We argue that unemployment, marginal attachment, and not in the labour force are three distinct states which should not be pooled in modelling employment. Using a panel data set from Australia, we test the accuracy of predicted wages for the non-employed from a range of two- and multi-state sample selection models. Focusing on those individuals who subsequently enter employment, we find that predictions which incorporate the estimated sample selection correction perform poorly for all groups, especially for the marginally attached and the not in the labour force. Unconditional predictions from the sample selection models perform better but never outperform a simple linear regression. These results have important implications for policy simulations from structural labour supply models.