

Worker Heterogeneity and the Asymmetric Effects of Minimum Wages

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Abstract

This paper explores the notion that minimum wages affect different low-skilled workers asymmetrically due to productivity differences. In a search model with worker heterogeneity, a rising minimum wage lowers the employment and labor force participation of the least productive workers by pricing them out of the market, while having the opposite effect on other low-skilled workers that remain hireable. CPS data supports these predictions; a rise in the minimum reduces the employment and labor force participation of teenagers with less than high school education, but has the opposite effect on prime-age workers with high school attainment. The calibrated model requires small firm surpluses to match these observations. If firm surplus is small due to high nonmarket activity values, a moderate rise in the minimum improves aggregate welfare even when the worker's bargaining weight is high.

Keywords: Minimum Wages, Search and Matching, Unemployment, Worker Heterogeneity

JEL Classification: E24, J08, J38, J64, J68

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