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LONGITUDINAL EVIDENCE OF FIRM SIZE EFFECT ON WAGE PREMIUM AND WAGE DIFFERENTIAL IN KOREAN LABOR MARKET**Abstract:**

This study analyzes the firm size effect on wage determinant mechanism and wage differential between large firms and small firms. The empirical methodology, based on Fixed Effect estimation, Probit estimation and Oaxaca-Blinder decomposition estimation, be utilized to measure wage determinant factors exclude unobservable characteristics heterogeneity and permits to obtain endowment or discrimination proportion of wage gap. Firm size wage premium mostly be attributed to efficiency wage, compensation wage differential, skill complementarity, monitoring cost, prevent union organization, rent sharing and internal market. However, there are no completely explanatory for firm size wage premium. Estimated results suggest that more educated employees are easily to find in large firms, it is consistent with the hypothesis that higher wages paid by large firms can be explained by efficiency theory. Endowment differential is main reason for wage gap between large firms and small firms. Employees have lower turnover rate in large firms than small firms. This phenomenon can be explained by internal labor market theory which means employees have higher probability of promotion and higher costs of turnover in large firms.

Keywords:

Firm-size wage differential, Korean Labor and Income Panel Study, wage decomposition

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