“Since you’re so rich, you must be really smart”: Talent and the Finance Wage Premium

by Michael Böhm, Daniel Metzger and Per Strömberg

Discussant: Giovanni Pica (Università degli Studi di Milano)

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Wage developments in the aftermath of the crisis

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  - The importance of talent in determining the likelihood of working in the finance sector does **NOT** increase over time
  - Talent explains (part of) the finance wage premium but it does **NOT** explain its rise

Theoretical channels

- **DEMAND**: Relative demand for high-talent individuals goes up, perhaps because the finance sector becomes more skill/talent-biased
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- **SUPPLY**: Rising relative wages induce high-talent workers to self-select into (supply their labour services to) the finance sector (focus of the paper)
  - Testable implications from Roy model

Roy model (1)

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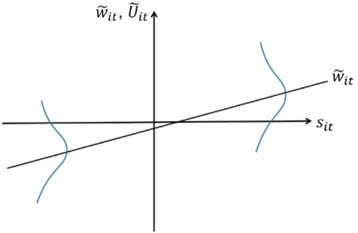
- If $\tilde{\alpha}_t < 0$, the marginal worker has above average skills $\hat{s}_{it} > 0$ (any evidence on this?)



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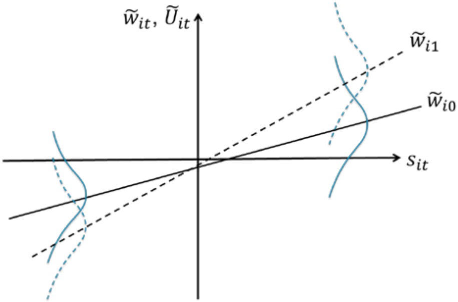

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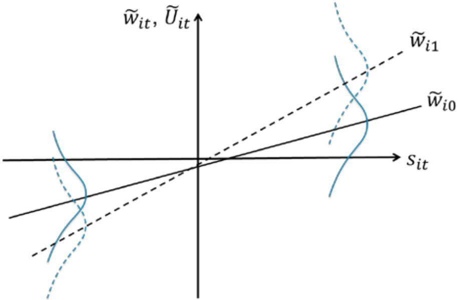

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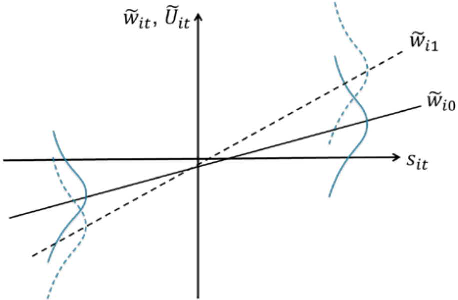

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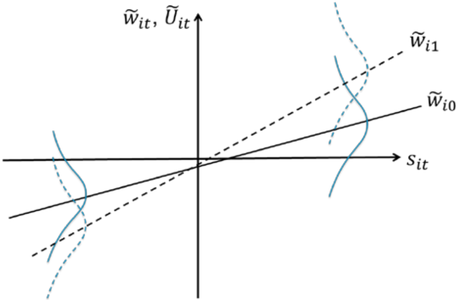

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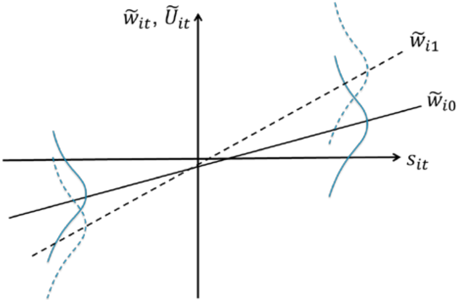

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- Net effect on average **RELATIVE TALENT**: **AMBIGUOUS** (for any $\tilde{\alpha}_t$)

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- Can identify the marginal worker in the data and test whether the above predictions hold

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Finance wage premium and returns to talent

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- Tasks (abstract vs routine): potentially interesting, very little details.

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- The relative demand for talent in finance vs non finance sectors is:

$$h_{\text{finance},t} - h_{\text{non finance},t} = c + (\sigma - 1)(\mu_{\text{finance},t} - \mu_{\text{non finance},t})$$

  Finance sector becomes increasingly skilled biased if $\mu_{\text{finance},t} - \mu_{\text{non finance},t}$ increases over time.