

Earnings Dynamics and Profile Heterogeneity: Estimates from Japanese Panel Data

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Abstract

The recent empirical work on earnings processes by Guvenen (2009) finds using US panel data that ignoring heterogeneity in earnings profiles among individuals leads to an upward bias in the autoregressive parameter of earnings shocks. It then argues that the existing assumptions in incomplete markets models, almost all of which require the highly persistent earnings shocks and no individual-and group-specific differences in earnings growth rates, may be inappropriate. This paper investigates the applicability of this US data-based debate to other developed countries by using a panel of Japanese male earnings. The results indicate that it is possible to corroborate Guvenen's arguments, despite some differences in details of the estimates.

Keywords: Labor earnings risk, Heterogeneous earnings profiles, Incomplete markets models, Transitory shock, Persistent shock.

JEL Classification: C33, D31.