

Faculty Seminar 25.11.2024

Michael Oberfichtner, Prof. Dr.
University Erlangen-Nuremberg and IAB

The pass-through of monopsony power to wages

Boris Hirsch, Elke J. Jahn, Alan Manning, and Michael Oberfichtner

Abstract: There is ample empirical evidence that the labour supply to an individual employer is not perfectly elastic with respect to wages. This implies employers have potential monopsony power. This paper aims to estimate the extent to which potential monopsony power passes through to lower wages. Using German administrative data, we find that the average pass-through is nearly 40%. We also show that the pass-through is lower where collective bargaining and work councils are present. When estimating the pass-through along the wage distribution, we find that monopsony power is most severe in low-wage labour markets.