



## ABSTRACT

**Title:** Estimating wage rigidities in European regions

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**Regional labour markets, unemployment... S10? S13?**

**Abstract:** *(minimum 300 words)*

**The degree of wage rigidity in a region or country plays a crucial role in how economics shocks affect the labour market. This is the case both in the real world, as well as in macro-economic models that are used to evaluate fiscal and monetary policy. Most empirical and theoretical models work on wage rigidities operate on the national level. However, it is clear especially in Europe that on the one hand there exist both large and persistent regional unemployment differences, which calls for analysis on the regional level; but on the other hand institutions such labour unions or legislation on wage negotiations make that variables at the national level may also have a large influence on regional wages. This paper therefore estimates wage rigidities at the regional level, but controls for relevant determinants at the national level. We are not the first to consider such a mix of regional and national variables in regional wage regressions, (see for example Jimeno and Bentolila 1998). To the best of our knowledge we are the first to do this systematically on the level of the EU.**

**As a second contribution to this literature, we argue that there exists an aggregation bias when estimating wage rigidities on the national level. Our results show that estimating wage curves on national data leads to higher parameter estimates (a steeper wage curve).**

