

A STUDY ON THE TRADE-OFF BETWEEN SUPERVISION AND WAGES: AN EMPIRICAL TEST OF EFFICIENCY WAGE THEORY

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ABSTRACT

This dissertation investigates the applicability of the shirking version of efficiency wage models in Korea. Analyses is based on the Survey on Wage Structure in the 1980's and 1990's - using data collected in 1983, 1989, 1993, 1996, and 1999.

Efficiency wage theory predicts a negative relationship between supervision and wages: employers may choose either to pay a wage premium or to increase the level of supervisory intensity to force workers to exert more effort.

The relation between supervisory intensity, as measured by the ratio of supervisors to supervisees in a firm, and wages is explored. Interaction effects between supervisory intensity and employer characteristics on wages are also investigated in more detailed analyses. Finally, we explore whether supervisory intensity is able to explain inter-industry wage differentials.

The evidence suggests that supervisory intensity is positively correlated with wages, implying the efficiency wage model is not applicable in Korea. Industrial interaction analysis shows weak evidence of efficiency wages in the social service sector, but there are no apparent patterns in other industries. In occupational interaction analysis,

efficiency wages are paid to drivers and sales workers. Although supervisory intensity does not explain wage variation across industries, there are significant inter-industry wage differentials observed in Korea.