

> Thursday, February 24th, 2022

12:00 - 13:30

IFLAME RESEARCH SEMINAR

**RESEARCH
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ABSTRACT

THE SIGNALING EFFECT OF SPECIFIC SKILLS ON THE CAREER OF YOUNG PROFESSIONALS

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We evaluate the economic returns to signaling specific skills by means of a distinction that is given to top-scorers in field specific-exams awarded at the national level in Colombia. We employ a regression discontinuity design, and administrative earnings records, to document the effect of the distinction on earnings of young professionals. We find that the distinction increases initial earnings in about seven to twelve percent, which is equivalent to an additional year of education in Colombia. Our estimates are robust to alternative estimation strategies and alternative ways of measuring the outcome. In addition, we find strong evidence that the results are not due to differences in skills around to cutoff, nor driven by manipulation or by selective attrition. We explore potential mechanisms and find compelling evidence about three of them. First, firms in specialized industries highly value signals of field-specific skills. Second, the signal given by the distinction substitutes the signal given by college reputation, and benefits mainly income-constrained, high-skilled students who attend lower-ranked schools. These results suggest that the distinction is able to correct potential negative college sorting caused by income constraints among low-income students. Third, high-productivity firms benefit from the signal and offer higher paid wages to graduates with the distinction.



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