



## Research Working Papers

# Effective Downward Nominal Wage Rigidities

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Cross-country evidence suggests that wage rigidity leads to employment contractions and lower output during recessions.

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Downward nominal wage rigidity limits the downward adjustment of nominal wages, especially during recessions. Although macroeconomic models suggest that downward wage rigidity exacerbates employment losses and generates asymmetric business cycles when inflation is low, direct empirical evidence for this effect is scarce. This paper estimates effective downward nominal wage rigidities that account for different inflation environments across 53 countries and finds that downward wage rigidities are associated with minimum wage policies and widespread. Further, countries with higher effective downward nominal wage rigidities are subject to more sizable contractions in employment and real GDP per capita during recessions.

JEL classifications: E24, E32, J31

## Article Citations

- Matschke, Johannes 2022. "Effective Downward Nominal Wage Rigidities." Federal Reserve Bank of Kansas City, Research Working Paper no. 22-10, September. Available at <https://doi.org/10.18651/RWP2022-10>

## Related Research

- Schmitt-Grohé, Stephanie, and Martín Uribe. 2016. "Downward Nominal Wage Rigidity, Currency Pegs, and Involuntary Unemployment." *Journal of Political Economy*, vol. 124, no. 5, pp. 1466-1514. Available at <https://doi.org/10.1086/688175>
- Jordà, Òscar. 2005. "Estimation and Inference of Impulse Responses by Local Projections." *American Economic Review*, vol. 95, no. 1, pp. 161-182. Available at <https://doi.org/10.1257/0002828053828518>

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