Information Asymmetry in Job Search

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Abstract

Standard models of rational job search assume agents know the distribution of offered wages when deciding which jobs to accept. We test if incorrect beliefs about wages affect real-world job search behavior in a field experiment with 1100 senior-year undergraduate students in the graduating Class of 2023 at the University of California, Berkeley. Partnering with the Career Center, we present personalized information graphics on school-and-major-specific salary distributions to students in the treatment group. We first document novel evidence that even prior to labor market entry, errors exist in wage beliefs – some students overestimate the available distribution, while others underestimate the available distribution. Post-treatment, we find that students treated with correct information update their beliefs towards the truth, and this is reflected in changes in reservation wages. At the end of the school year, we find that in comparison to the control group, students who increased their reservation wage after treatment had higher total and base salaries conditional on employment, a result significant at the 5% level. However, these same students had a lower, but imprecisely estimated likelihood of being employed by June post-graduation. An opposite but symmetric effect occurred for students who decreased their reservation wage. Our results are consistent with job search models where workers with more optimistic expectations wait longer to accept a job, but accept higher wages. We use our experimental estimates together with the model to simulate the effect of pay transparency laws on labor market outcomes, including wage dispersion. Our paper suggests an economically important role for subjective beliefs about labor market conditions and shows the effectiveness of a light-touch information intervention on employment and earnings for first-time job seekers.

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