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The spatial sorting and matching of skills and firms

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Abstract

Using a matched employer-employee database for Italy we look at the spatial distribution of wages across provinces. This rich database allows us to contribute at opening the black box of agglomeration economies exploiting the micro dimension of the interaction among economic agents, both individuals and firms. We provide evidence that firm size and particularly skills are sorted across space, and explain a large portion of the spatial wage variation that could otherwise be attributed to aggregate proxies of agglomeration externalities. Our data further support the assortative matching hypothesis, that is “good” workers match on the labor market with “good” firms, and we further show that assortative matching is not driven by a co-location of workers and firms of similar quality. Finally, we point out that this assortative matching is negatively related to local market size.

Keywords: Spatial externalities, panel-data, skills, firms’ heterogeneity, sorting, matching.

JEL Classification: J31, J61, R23, R30.

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