



Have Lazear-Style Implicit Contracts Disappeared?

By Federal Trade Commission

Createspace, United States, 2014. Paperback. Book Condition: New. 279 x 216 mm. Language: English . Brand New Book ***** Print on Demand *****.A well-known theory (Lazear, 1979) argues that wage patterns in which younger workers are underpaid relative to marginal revenue product and older workers are overpaid relative to marginal revenue product can be understood as an implicit contract designed to combat principal-agent problems in environments where worker monitoring is costly. In this paper I argue that a number of recent developments (most notably the legal ban on mandatory retirement) have caused the formation of these implicit contracts between firms and young workers to decline (or cease). I derive testable implications of this hypothesis and test it using a Panel Study of Income Dynamics sample of prime-age, full-time, private sector, non-union male workers who are not self-employed. This is the group that, according to Lazear's theory, is most likely to be party to these implicit contracts. The results are consistent with the hypothesis. In order to explore the question of whether the results from the main sample have some cause other than the hypothesized one, I perform the following exercise: I identify other groups in the data (both sub-groups...



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