Introduction

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This section of the book analyzes the presence of wage rigidities in two Latin American countries: Chile and Colombia. The study of wage rigidities has been driven by the effect they can have on the labor market and monetary policy.

The fact that wage rigidities partly determine inflation persistence and volatility, means understanding their causes is essential for improving the work of economic authorities. This type of analysis is also relevant for central banks given its contribution to improving the microfoundation of their price and wage models by incorporating nominal and real rigidities.

The studies presented below employ microeconomic data, allowing wage rigidities to be examined individually and at the company level. It is important to point out that the study of wage rigidities using microdata and survey information does not seem to have received sufficient attention. As far as we know there are four exceptions to this: the papers on Chile and Colombia included in this section, Iregui et al. (2011), who made an empirical examination of wage rigidities in Colombia based on wage samples at the company level,[1] and Castellanos et al. (2004), which analyzes wage rigidities in Mexico.[2]

As mentioned, this part of the book presents studies for Latin America. In particular, in their paper on Chile, Cobb and Opazo use information from 588,000 wage histories for the period December 2001 to

[1] See Iregui, Melo and Ramírez (2011), "Are wages rigid in Colombia?: Empirical evidence based on a simple of wages at the firm level", *Monetaria*, vol. XXXIV, number 1, January -March, pp. 63-91.

[2] See Castellanos, García-Verdú and Kaplan (2004), "Nominal wage rigidities in Mexico: evidence from social security records", *Journal of Development Economics*, vol. 75, pp. 507-533.

December 2007 obtained from the Chilean Security Association (*Asociación Chilena de Seguridad*) to examine the frequency of nominal wage adjustments in Chile and, particularly, the frequency of wage decreases as a measure of labor market rigidity. The authors find that, on average, wages took close to nine quarters to adjust. According to their calculations, the degree of downward flexibility of wages depends positively on the participation of young workers and the size of company, while it depends negatively on the percentage of high income employees.

In the case of Colombia, Iregui, Melo and Ramírez, prepare and apply a survey of 1,305 Colombian firms in order to study the nature and sources of wage rigidities in the country. The survey also enables the authors to evaluate different wage rigidity theories that explain firms' behavior regarding wage adjustments in Colombia. The results show the presence of downward rigidities in real and nominal wages in the country. Furthermore, according to the survey the most important reasons why firms do not cut wages during times of economic difficulty are: to avoid losing their most productive workers and to prevent decreases in employee motivation. Such reasons are related to the efficiency wage theory.