

Determination of Wage Rate in the Labour Market in Sri Lanka

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Wage/ Salary is the main income source of a majority of employed population in Sri Lanka. However their wage is a function of a number of inputs such as age, sex, education and experience. Literature reveals that human capital accumulation is an important determinant of individual's earnings capacity and employment prospects, and therefore, plays an important role in determining the travel and distribution of income in society. Hence, it is important to identify how far the education of employees has determined wage rate. Labor market experience also plays a significant role in wage determination of employees.

Labor force in Sri Lanka is employed in different professions or occupations in various sectors or industries. Salaries or wages of these employees differ vertically as well as horizontally. The causes for differentials are explained under the theory of wage determination. However, in order to understand this problem in the context of a country, an empirical study is needed. Therefore, this study focused on investigating how the wage rate of employees is determined in the Sri Lanka labor market. The internationally recognized classical human capital earning function which was introduced by Jacob Mincer highlights the significance of education and experience in wage determination.

In order to study the wage determination, a sample was selected from the Sri Lanka labor force survey conducted by the Department of Census and Statistics. The dispersion of conditional wage rate of the total sample, and the sub-samples are investigated by running quintile regressions of Mincerian wage equation with a view to addressing the link between schooling and rate of return to education and wage inequality.

In the Sri Lanka labor market, level of education is the most significant factor for wage determination and the substitutability of experience for education is low. In addition, the rate of return to education increases over the wage distribution in an overwhelming majority of wage groups.

Key words: *Wage Determination, Human capital, Level of education, Experience, Mincer model*