Earnings and Ethnicity: An evaluation of source of wage differential in Nepalese labour market.

Abstract

This paper evaluates the degree of ethnic wage discrimination in the Nepalese labor market. To establish the casual relation between discrimination and labor market outcome (hourly wage) the model controls for common characteristics of the employee such as educational attainment, experience and sector of employment. Comparing with Dominant ethnic group, the result shows that Middle- Class and Minority ethnic groups earn less by 20 percent and 31 percent in agriculture sector and approximately 11 and 23 percent in non agriculture sector, respectively. Dallit seems to be discriminated only in non agriculture sector by 11 percent. As wage equation results into significant difference in ethnic earnings, the Oaxaca wage decomposition technique is applied to evaluate the source of wage differential. The decomposition result indicates that larger portion of differential comes from difference in human capital endowment associated with particular ethnic group rather than from variation on its coefficient. This implies that Nepalese labour market possesses a high degree of pre- market discrimination relative to current market discrimination.

Keywords: labor market discrimination, Ethnicity, wage premium