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Thesis Title: The Impact of Schooling on Wages in Formal Sector of Algeria

Abstract :

Individuals have an incentive to invest in education to improve their conditions, including improving the wage. However, sometimes the lack of coordination between state policies (encouraging education under low wages policy) may lead to negative effects on this relationship. Avoiding these negative effects, it is useful to regularly check the economic rate of return to schooling. In this direction, this study examines the impact of schooling on wages in formal sector of Algeria. This paper used data of Survey on Expenditure and household Living Standards, which was conducted by National Statistics Bureau (NSB) in 2011. The study focuses on a sample of formal sector that has 1234 observations. Using Mincer model of the wage function, we found positive and statistically significant effects of education on wages. The Mincerian wage equation was estimated using two stage least squares (2SLS) method with education reform policy implemented in 1981 and father and mother schooling years as an instrument. Our instrumental variables rest on the assumption that schooling years is the only way through which our instrumental variables (education reform policy, father and mother schooling years) affect wages. Results suggest that schooling has a positive and significant effect on wages in formal sector. One year increases in education results in 7.5% increase of wage. Dummies of different educational levels also have positive effects. These results have six important findings. First, the investment in university and high school levels revealed more returns compared with other educational levels. Second, rate of return to schooling gap between female and male reduced. Third, people with low skills have smaller returns. Fourth, private sector offers more opportunity to improve wage. Fifth, university level generates high return for both private and public sector. Sixth, Algerian rate of return to education still needs to be improved comparing with the MENA and international rates which are 7.3% and 10%, respectively. These results may be applied in policies reform intended to reorganize the labour market and increase the minimum wage in formal sector and public sector. These results imply that investment in women education would be promoted, since it is more profitable. Checking the return to education regularly may contribute to draw wages map, which linked to education level to achieve the principle of merit.