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Hans Gersbach, Armin Schmutzler



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Does Globalization Create Superstars? A Simple Theory of Managerial Wages*

Hans Gersbach

CER-ETH - Center of Economic Research
at ETH Zurich and CEPR
Zürichbergstrasse 18
8092 Zurich, Switzerland
hgersbach@ethz.ch

Armin Schmutzler

Department of Economics,
University of Zurich and CEPR
Blümlisalpstrasse 10
8006 Zurich, Switzerland
armin.schmutzler@econ.uzh.ch

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Abstract

To examine the impact of globalization on managerial remuneration, we consider a matching model where firms compete both in the product market and in the managerial market. We show that globalization, i.e., the simultaneous integration of product markets and managerial pools, leads to an increase in the heterogeneity of managerial salaries. Typically, while the most able managers obtain a wage increase, less able managers are faced with a reduction in wages. Hence our model is consistent with the increasing heterogeneity of CEO remuneration that has been observed in the last few decades.

JEL Classification: D43, F15, J31, L13

Key Words: Globalization, manager remuneration, superstars

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