

Short n' Steep: Wage Growth Maximizing Job Ladders with Heterogeneous Skills and Risk Preferences

Abstract: This paper explores the dynamics of wage growth through job transitions, focusing on the role of heterogeneous skills and risk preferences in shaping workers' career paths. Using detailed work histories from the National Longitudinal Survey of Youth (NLSY) and multi-dimensional skill data from O*NET, I construct a measure of "skill distance" to capture the difference between a worker's current skill set and the requirements of their new occupation. I combine this measure with data on risk tolerance to identify novel empirical patterns in the job transitions of young workers. In particular, I find that workers who make fewer but larger transitions, moving into roles where they are initially under-skilled ("short and steep" job ladders), experience the highest wage growth on average. However, these transitions are also riskier, as larger skill distance is associated with greater variability in post-transition job quality and wages. Consistent with this result, workers with higher risk tolerance are more likely to make these larger transitions. Finally, I propose and estimate a model of worker transition decisions to explain these patterns.