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INCENTIVES, SELECTION AND PRODUCTIVITY IN LABOR MARKETS:  
EVIDENCE FROM RURAL MALAWI

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# Incentives, Selection and Productivity in Labor Markets: Evidence from Rural Malawi

An observed positive relationship between compensation and productivity cannot distinguish between two channels: (1) an incentive effect and (2) worker selection. We use a simplified Becker-DeGroot-Marschak mechanism, which provides random variation in piece rates conditional on revealed reservation rates, to separately identify the two channels in the context of casual labor markets in rural Malawi. A higher piece rate increases output in our setting, but does not attract more productive workers. Among men, the average worker recruited at higher piece rates is actually less productive. Local labor market imperfections

appear to undermine the worker sorting observed in well-functioning labor markets.

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