The Impact of Interaction Effect of Education and Work Experience into Earnings: An Application of Mincer Equation

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This study employs the Mincer equation approach to identify the impact of education and working experience into earnings in Sri Lanka. The key question which has studied here is, how to invest on education and training according to its contribution into earnings in Sri Lanka. Mincer equation was first created by Jacob Mincer to explain wage income as a function of schooling and experience. The logerithm of earnings is modelled as the total years of education and a function of work experience. Researchers have used cross section data for years of education, years of work experience, income and other demographic information which were collected by using a questioner. The sample size was 299. STATA 13 and Minitab 19 softwares were used to analyze the data. The descriptive statistics of the variables shows the mean value of the education is around 11 years of the sample and working experience is around 23 years and income of all the respondents is around Rs 45287. According to the multiple regression analysis, results shows a negative value for interaction variable (Education*Experience). Although the coeffient of interaction is minus the overall effect is not resultig a decrease in income, it only does slowing the rate of change. Since the results reject the null hypothesis, there is an interaction between education and work experience into earnings. That means the change in education and work experience together can be affected to the returns of education. This study suggests the need of higher efficiency in education sector in Sri Lanka to decrease the years of education of each individual to obtain the relevant qualification which needs to enter the labour market.

Keywords: Interaction, Labor market, Mincer equation