

# OVERSKILLING, UNOBSERVED ABILITY AND EARNINGS OUTCOMES IN MALAYSIA: A QUANTILE REGRESSION APPROACH

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## **Abstract**

*This paper examines the incidence and the effect of overskilling on earnings by taking individuals' unobserved heterogeneity ability using a quantile regression (QR) method. Using data from the second Malaysia Productivity Investment Climate Survey (PICS-2), the incidence of overskilling was reported around 31% - moderately overskilled (23%) and severely overskilled (8%). Close examination showed that overskilling was found to be heavily concentrated within low-ability segments of the workers' conditional wage distributions. The QR revealed that the wage loss for being overskilled was not homogeneous over the workers' conditional earnings distribution as compared to the ordinary Least Square (OLS) method. The penalty was confined at the entire individuals' conditional earnings distribution regardless of gender. However, the penalty for moderately overskilled was greater at the lower deciles and became smaller or even disappears as one moved up the earnings distribution. This may be consistent with the view that the mismatched workers are likely amongst the low-ability workers. By contrast, the penalty for severely overskilled, in particular women was evident all the way through the conditional wage distribution. This perhaps suggests that unobserved heterogeneity unable to explain the earnings penalty for mismatched women. Nevertheless, this study may suggest the importance of including explicit controls for individuals' unobserved ability where possible, as a mean to avoid bias estimation of the wage impacts of the overskilling.*

**Keywords:** overskilling, quantile regression, unobserved ability, earnings