



Abstract

We examine cyclical behavior of aggregate skill prices and find that the price of schooling is weakly procyclical and the price of experience is countercyclical. Controlling for relative supply and composition effects, we distinguish between two types of productivity shocks and show that the countercyclical pattern of experience premium is mostly driven by neutral shocks whereas the procyclicality of schooling premium is driven by investment-specific shocks. We examine these findings in an extended capital-skill complementarity framework which incorporates education, experience and new and vintage capital equipment. Employing predictions of human capital and match quality theories, the model generates cyclical patterns of skill prices observed in the data.