

Educational mismatch and graduate earnings: A longitudinal analysis of the New Zealand labour market analysis.

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Ensuring a proper match between skills gained in higher education and those demanded in the labour market is necessary to maximize the return on human capital investment. However, this is often not the case. The divergence between skills learned in higher schooling and those used at work refers to an educational mismatch. According to the Survey of Adult Skills conducted as a duty of the Programme for the International Assessment of Adult Competencies (PIAAC), New Zealand is a country that has a higher rate of qualification mismatch among The Organization for Economic Corporation and Development (OECD) economies – a rate of over 40%. Educational mismatch has detrimental consequences at individual, firm, and macroeconomic levels. Individually, employees may not get the most out of their schooling investment in education if job satisfaction is low. At the firm level, educational mismatch may increase labour turnover while decreasing productivity. At the Macroeconomic level, qualification mismatch may upsurge unemployment and slower economic growth, indicating inefficient human capital utilisation. This research analyse the impact of over-education over the life course of employees of New Zealand graduates. The study utilises the Integrated Data Infrastructure (IDI) data of Stats NZ while employing a modified version of the Mincerian wage equation to model these effects. The empirical analysis uses the ORU model to identify the impact of educational mismatch on graduate earnings. This study conducts a longitudinal analysis using the census data of 2013, 2018 and 2023 and sample selection is non-random sampling. The main independent variables are years of overeducation, undereducation and required education. The other control variables used by the research are human capital, employee-specific and job-specific variables. The over and under-education is measured using two methods, job analysis and self-assessment method to ensure the reliability of the study. The equation is estimated with the fixed effect model because the predicted returns to the years of over and under-education are biased against the human capital model if unobserved variability is significant. The analysis deflates the wage in other following years to exclude the impact of

growing wages due to inflation. The main contribution of this study is the first kind of research, analysing the life course impact of educational mismatch.