

## ABSTRACT

By postulating the existence of a compensating differentials equilibrium (CDE) in a local labor market, we are able to derive an estimable model of employment contract choice when firms differ in the hours distributions offered to employees. Under our assumptions regarding preferences and the properties of dynamic wage functions, we impose restrictions on the mapping of hours distributions into time-invariant compensating wage differentials paid by firms. This enables estimation of most behavioral parameters, and permits the construction of direct tests of the compensating differentials model. The empirical analysis employs data from an historical labor market, and some evidence supporting the hypothesis that a CDE was present in the market for furniture workers in Grand Rapids, Michigan in 1889 is presented.