

PERSONALITY TRAITS AND WAGES: A TWIN-BASED APPROACH

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Abstract

This paper utilises the within-twin-pair approach to study the returns to personality among young identical twins. The paper shows that the least square estimates of personality traits suffer from omitted variable bias. This study finds that conditional on shared genetic and environmental background, Conscientiousness and Extraversion are rewarded in the labour market. While employees are penalised for a standard deviation increase in Agreeableness, Neuroticism is positively related to wages. Because of its negative correlation with fluid intelligence, the effect of Neuroticism may be biased downward in analyses that do not condition for fluid intelligence. In contrast to previous studies, this paper then tests and rejects the assumption that the twin-design approach eliminates all significant endogenous effects. This study implies that personality traits cannot be presumed to be exogenous even though traits exhibit stability across development.