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Abstract

We present evidence of the minimum wage effects on labour informality rates in Colombia. Our identification strategy consists of dividing the working population into sixteen groups depending on their age, gender and educational level to observe how the variations in the minimum wage with respect to the 70th percentile of the distribution of salaries corresponding to the demographic group of each individual, affects the probability of having an informal occupation. The results suggest that the higher the value of the minimum wage ratio the higher will be the probability of being informal. An increase of one percentage point (pp) in the ratio of the minimum wage increases the probability of having an informal job by 0.21 pp. This effect may be greater in cities with higher informality rates and consequently with lower labour productivity of less educated workers. Our results also present evidence of non-linear effects, which suggests that workers whose labour productivity is less than the minimum wage are more likely to have informal jobs.