

# Income dynamics of liberal professions, entrepreneurs and employees

## **Abstract:**

“The aim of this study is to analyze the income dynamics of self-employed, i.e. entrepreneurs and liberal professions, and employees in Germany with a dynamic panel data estimators. The special interest of the author is on the income dynamic of liberal professions and entrepreneurs and how they differ from employees.

To model the dynamics a lagged dependent variable is added to a classic Mincer equation. The resulting problem of endogeneity by correlation of the error term with a suspected unobserved heterogeneity is encountered by a dynamic panel data estimator. Using this method, the speed of adjustment is estimated based on data from the German Socioeconomic Panel of the DIW for the years from 2000 until 2013. The coefficient for the adjustment speed is significantly different from zero for both the self-employed and employees. Overall, entrepreneurs and professionals yield very similar results and have an almost twice as high speed of adjustment than employees.”

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