

ABSTRACT

The segmented structure of Indonesia's labor market between the formal and informal sectors results in differences in the wages offered. The formal sector generally offers higher wages, which can incentivize individuals to increase their working hours in that sector. This study aims to analyze the effect of wages on the probability of individuals working in the formal sector.

This study uses data from the 2023 National Labor Force Survey in Indonesia and logistic regression analysis with a district fixed-effects approach. The number of observations used is 429,405 individuals working in the formal and informal sectors.

The results shows that individuals with wages above the minimum wage, higher levels of education, participation in training, being male, and residing in urban areas are more likely to work in the formal sector. However, increasing age and marital status reduce the probability of individuals working in the formal sector.

Keywords: Formal Sector, Informal Sector, Logistic Regression.

