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This paper uses a wage setting survey of 1,305 Colombian firms to explore the nature and sources of wage rigidities. This is the first study of a non-European emerging economy that uses evidence from a survey of firms to analyse this topic. The survey was carried out during the first half of 2009, when the Colombian economy was showing signs of a slowdown in economic activity and increasing unemployment. The sample is fully representative of the population under study. The results provide evidence of nominal and real downward wage rigidities in the country. The most important factor in not reducing base wages during an economic slowdown is to avoid the loss of more experienced and productive workers, which is related to the efficiency wage theory in its adverse selection version. In addition, ordered logit regressions were used to determine what factors are related to wage rigidities. The findings indicate that, in general, permanent contracts, workforce composition, labour intensity and the presence of collective agreements play an important role in explaining wage rigidities in the country.

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