



SNF Sinergia-CEPR Conference 2014: “Economic Inequality, Labor Markets and International Trade”

Organizers: Josef Zweimüller (University of Zurich and CEPR), Peter Egger (ETH Zurich and CEPR),
Reto Föllmi (University of St. Gallen and CEPR)

Place: Monte Verità, Ascona (Switzerland)

Date: June 15 – 18, 2014

Program

Sunday, June 15

17:00 - 18:00 Arrival and Welcome Reception
18:00 - 19:00 Apero
19:00 - 21:00 Dinner

Monday, June 16

08:00 - 08:45 Breakfast
08:45 - 09:05 B Welcome Introduction by Josef Zweimüller (UZH), Lorenzo Sonogini (Fondazione
Monte Verità) and Chiara Cometta (CSF)
09:10 - 10:10 B **Keynote:** Kiminori Matsuyama: “Globalization and Synchronization of Innovation
Activities”
10:15 - 11:00 B, E **Parallel Session I:**
 B: Hartmut Egger: “Offshoring Domestic Jobs”
 E: Tobias Seidel: „Financial Development and Inequality in the Global Economy”
11:00 - 11:30 Coffee Break
11:30 - 12:15 B, E **Parallel Session II:**
 B: Thomas Sampson: „Assignment Reversals: Trade, Skill Allocation and Wage
Inequality”
 E: Sang Yoon (Tim) Lee: „Binding up the Nation’s Wounds: An Economic Analysis of
the Korean Reunification”
12:15 - 13:30 Lunch
13:30 - 15:15 B, E, P **Poster Session I:** (16 Posters, see page 3)
15:30 - 16:15 B, E **Parallel Session III:**
 B: Reto Föllmi: „Arbitrage and Trade Flows”
 E: Anna Maria Mayda: „The Impact of Skilled Migration on Firm Level Productivity:
an Investigation of publicly traded US Firms”
16:15 - 16:45 Coffee Break
16:45 - 17:45 B **Keynote:** Peter Neary: “Not so Demanding: Preference Structure, Firm Behavior, and
Welfare”
18:30 - 19:00 Apero
19:00 - 21:00 Dinner

Tuesday, June 17

- 08:00 - 09:00 Breakfast
- 09:00 - 10:00 B **Keynote:** Fabrizio Zilibotti: "Networks in conflict: Theory and Evidence from the Great War of Africa"
- 10:10 - 10:55 B, E **Parallel Session IV:**
B: Vincenzo Merella: „Love for Quality, Comparative Advantage, and Trade“
E: Esther Ann Bøler: „Globalization: A Woman’s best Friend? Exporters and the Gender Wage Gap“
- 10:55 - 11:25 Coffee Break
- 11:25 - 12:10 B, E **Parallel Session V:**
B: Armin Schmutzler: „Does Globalization create Superstars? A Simple Theory of Managerial Wages“
E: Philip Sauré: „Quality Pricing-to-Market“
- 12:10 - 13:30 Lunch
- 13:30 - 15:15 B, E, P **Poster Session II:** (16 Posters, see page 3)
- 15:30 - 16:30 B **Keynote:** James Markusen: “Preferences and Per-capita Income: Skill Premiums and the Composition of Consumption in General Equilibrium”
- 17:00 - 21:00 Social Activity and Conference Dinner at Restaurant Isole di Brissago. We will walk for about 30 minutes. Please bring proper shoes.

Wednesday, June 18

- 07:30 - 08:30 Breakfast
- 08:30 - 09:15 B, E **Parallel Session VI**
B: Marcelo Olarreaga: “Trading Unemployment”
E: Peter Egger: “The Effect of Tax Instruments on Income and Consumption in the Global Economy”
- 09:25 - 10:10 B, E **Parallel Session VII:**
B: Germán Pupato: „Performance Pay, Trade and Inequality“
E: Christian Kiedaisch: „The Effect of Inequality on International Patent Applications“
- 10:10 - 10:30 Coffee Break
- 10:30 - 11:15 B, E **Parallel Session VIII:**
B: Eric Toulemonde: „Trade under Monopsonistic Competition“
E: Michael Böhm: „The Wage Effects of Job Polarization: Evidence from the Allocation of Talents“
- 11:30 - 12:30 B **Keynote:** Costas Arkolakis: „The Elusive Pro-Competitive Effects of Trade“
- 12:30 - 13:30 Lunch
- 13:30 Departure

Poster Sessions

Poster Session I (Monday, 13:30 – 15:15):

B Simon Alder	Chinese Roads in India: The Effect of Transport Infrastructure on Economic Development
B Amandine Aubry	The Welfare Impact of Global Migration in the OECD Countries
B Sarra Ben Yahmed	Gender Wage Gaps across Skills and Trade Openness
B Sotiris Blanas	Offshoring, Technological Change and the Age-Skill Composition of Labour Demand
B Nora Strecker	Taxing Income around the Globe: A New Data-set
E Irene Fensore	Inequality and Parallel Imports in International Trade
E Bo Gao	Multi-product Firms, Export-only Products and Extensive Margin of Export
E Sandra Hanslin	A Dynamic North-South Model of Demand-Induced Product Cycles
E Andreas Kettermann	Unemployment Insurance Take-up, Search Effort, and the Business Cycle
P Krisztina Kis-Katos	Poverty, Labour Markets and Trade Liberalization in Indonesia
P Michael Koch	Skills, Tasks and the Scarcity of Talent in a Global Economy
P Andrea Lassmann	The Causal Impact of Common Native Language on International Trade: Evidence from a Spatial Regression Discontinuity Design
P Povilas Lastauskas	European Labour Markets in Open Economy: Between Proteus and Cyclops

Poster Session II (Tuesday, 13:30 – 15:15):

B Stefan Legge	Trade Liberalization and Credit Constraints: Re-allocations at the Firm Level
B Isabel Martinez	Cantonal Differences in Health Care Premium Subsidies in Switzerland
B Maryam Naghsh Nejad	The Role of Trade Openness for Labor Share of Income During Currency Crises
B Sergey Nigai	On Measuring the Welfare Gains from Trade under Consumer Heterogeneity
B Gianluca Orefice	Tariff reductions, trade patterns and the wage gap in a monopolistic competition model with vertical linkages
B Sebastian Otten	Language and Cultural Barriers in International Factor Movements
E Janneke Pieters	The Gendered Labor Market Impacts of Trade Liberalization: Evidence from Brazil
E Tobias Renkin	Counter-Cyclical Markups at the Product Level: Evidence from Supermarket Scanner Data
E Benedikt Rydzek	Trade Effects of Income Inequality Within and Between Countries
E Amrita Saha	Lobbying for Trade Protection An Empirical Investigation of Indian Manufacturing
E Lukas Schmid	Language Capabilities and Employment
P Fabian Schnell	What Determines Price Changes and the Distribution of Prices? Evidence from the Swiss CPI.
P Shruti Sharma	Imported Intermediate Inputs and Workforce Composition: Evidence from India's Tariff Liberalization
P Walter Steingress	Entry Barriers to International Trade: Product versus Firm Fixed Costs
P David Tsirekidze	Trade Restrictions and Labor Productivity: Evidence from the Georgian Wine Industry

Abstracts of Presented Papers

Parallel Session I, Monday 10:15 – 11:00

B: Hartmut Egger - Offshoring Domestic Jobs

We set up a two-country general equilibrium model, in which heterogeneous firms from one country (the source country) can offshore routine tasks to a low-wage host country. The most productive firms self-select into offshoring, and we show that offshoring reallocates labour towards less productive firms if offshoring costs are high, and towards more productive ones if these costs are low. Each source-country firm is run by an entrepreneur, and inequality between entrepreneurs and workers as well as intra-group inequality among entrepreneurs is higher with offshoring than in autarky, creating a class of entrepreneurial 'superstars'. All results hold in a model extension with firm-level rent sharing, which features aggregate unemployment. In this extended model, offshoring of high-wage manufacturing jobs furthermore has non-monotonic effects on unemployment and intra-group inequality among workers.

E: Tobias Seidel – Financial development and inequality in the global economy

We use a model with heterogeneous firms, firm-specific wages and a financial friction to study the implications of better quality of the financial system for unemployment and wage inequality. In the closed economy, a less severe moral hazard problem on the asset market allows firms at the lower end of the productivity distribution to secure external finance and to start production. This leads to lower average productivity and profits in the industry translating to a lower unemployment rate. In the closed economy, there is no effect on within-group wage inequality. However, if fixed export costs select the most productive firms into export markets in the global economy, better financial institutions have a different effect for exporters and domestic firms. As low-productive companies benefit relatively more, wage inequality decreases.

Parallel Session II, Monday 11:30-12:15

B: Thomas Sampson - Assignment Reversals

The allocation of skilled labor across industries shapes inter-industry wage differences and wage inequality. This paper shows that the ranking of industries by workforce skill differs between developed and developing economies and builds a multi-sector assignment model to explain the causes and consequences of this fact. Heterogeneous agents leverage their ability through their span of control over an homogeneous non-labor input. In equilibrium, higher skill agents obtain larger spans of control by sorting into sectors where the cost per efficiency unit of input is lower. Consequently, skill allocation is endogenous to country-sector specific variation in input productivity and costs. This generates novel implications for how technical change and trade affect wages. Since scale is complementary to skill, wage inequality rises following shocks that cause agents to increase their spans of control, such as input augmenting productivity growth and input trade liberalization. Moreover, when the sector skill ranking differs across countries each country has a comparative advantage in its high skill sector and output trade integration causes the relative wage of high skill workers, and wage inequality within the high skill sector, to increase in both countries.

E: Sang Yoon Lee - Binding Up the Nation's Wounds: An Economic Analysis of the Korean Reunification

We develop a multi-sector occupational choice model with two-dimensional individual skill heterogeneity. Sectors are different in terms of minimum skill requirements. Individuals are heterogeneous in terms of managerial skill and efficiency units of labor, and decide whether to become a manager or a worker and in which sector. Individual skills are accumulated over the lifecycle according to a stochastic learning-by-doing technology. This lifecycle effect generates non-trivial transition dynamics such as lagged responses of both TFP and labor productivity that were important characteristics of the growth miracles of East Asia and the post-communist transitions of Eastern Europe. We characterize the theoretical model and apply it to the economic integration process that results from a hypothetical reunification of North and South Korea. The model is used to project the transitional dynamics of a unified Korea under various integration scenarios and policy regimes.

Parallel Session III, Monday, 15:30-16:15

B: Reto Föllmi – Arbitrage and Trade Flows

We study how differences in per capita incomes across the globe and the associated heterogeneities in transport costs shape the direction of international trade and the distribution of trade gains. We deviate from standard approaches by assuming non-homothetic preferences; and we elaborate the empirical observation that trade costs are lower in rich countries (with "trade costs" broadly interpreted, including transport infrastructure, contract enforcement costs, information and legal costs, local distribution costs). With non-homothetic preferences, firms set higher prices and higher mark-ups in richer markets but are constrained by a threat of international arbitrage. (High price differences between rich and poor countries generate arbitrage opportunities and induce parallel trade.) Several predictions emerge. *First*, poorer countries concentrate their exports on rich markets, while richer countries export to a broader set of (rich and poor) markets. *Second*, average prices of imported goods increase with per capita income. *Third*, prices for a given product are highest in middle income countries. (We present empirical and anecdotal evidence supporting this prediction.) *Finally*, multilateral trade liberalizations harm poorer countries while benefitting richer ones. This is because lower trade costs tighten the arbitrage constraint inducing exporters from richer countries to abstain from selling to poor markets. Hence lower trade costs, while increasing world trade and world welfare, reduce trade and welfare in poorer countries.

E: Anna Maria Mayda - The impact of skilled migration on firm-level productivity: An investigation of publicly traded US firms

Silicon Valley firms and CEOs lobby fiercely in favor of increasing H1B visas. Is there evidence that this would affect the sales, profits and innovation activity in these firms? And in other firms, such as startups, or other sectors? We assemble a unique firm-level dataset and build on the strategy proposed by Kerr and Lincoln to address these questions. We find that increases in the cap are likely to lead to growth in sales, TFP and profits but only for a select group of firms. Our analysis suggests that an important channel for these results is an increase in innovation efforts, measured by R&D expenses. Industry-wise we find that firms in manufacturing account for the main results. Our results suggest that caps on H1B visas particularly constrain the innovation efforts of medium size firms.

Parallel Session IV, Tuesday, 10:10-10:55

B: Vincenzo Merella - Love for Quality, Comparative Advantage, and Trade

We propose a Ricardian trade model with horizontal and vertical differentiation, where individuals' willingness to pay for quality rises with their income, and productivity differentials across countries are stronger for high-quality goods. Our theory predicts that the scope for trade widens and international specialisation intensifies as incomes grow and wealthier consumers raise the quality of their consumption baskets. This implies that comparative advantages intensify gradually over the path of development as a by-product of the process of quality upgrading. The evolution of comparative advantages leads to specific trade patterns that change over the growth path, by linking richer importers to more specialised exporters. We provide empirical support for this prediction, showing that the share of imports originating from exporters exhibiting a comparative advantage in a specific product correlates positively with the importer's GDP per head

E: Esther Ann Bøler – Globalization: A Woman's best Friend? Exporters and the Gender Wage Gap

This study explores the relationship between the gender wage gap and the firm's export status using matched employer-employee data from the Norwegian manufacturing sector between 1996 and 2010. We estimate a standard Mincerian wage regression and find evidence of a substantial gender wage gap. More interestingly, the gender wage gap appears to be smaller in exporting firms. This effect is both statistically significant and economically meaningful. Working for an exporting firm is associated with a 5.7 percentage point lower gender differential, which amounts to closing the gender wage gap by about 24%. Exporters exhibit their distinctive behavior prior to entry into foreign markets, which may be a source of competitive advantage.

Parallel Session V, Tuesday, 11:25-12:10

B: Armin Schmutzler - Does Globalization Create Superstars? A Simple Theory of Managerial Wages

To examine the impact of globalization on managerial remuneration, we consider a matching model where firms compete both in the product market and in the managerial market. We show that globalization, i.e., the simultaneous integration of product markets and managerial pools, leads to an increase in the heterogeneity of managerial salaries. Typically, while the most able managers obtain a wage increase, less able managers are faced with a reduction in wages. Hence our model is consistent with the increasing heterogeneity of CEO remuneration that has been observed in the last few decades.

E: Philip Sauré - Quality Pricing to Market

We examine firm's pricing-to-market decisions in vertically differentiated industries featuring a large number of firms that compete monopolistically in the quality space. Firms sell goods of heterogeneous quality to consumers with non-homothetic preferences that differ in their income and thus their marginal willingness to pay for quality increments. We derive closed-form solutions for the pricing game under costly international trade, thus establishing existence and uniqueness. We then examine how the interaction of good quality and market demand for quality affects firms' pricing-to-market decisions. The relative price of high quality goods compared to that of low quality goods is an increasing function of the income in the destination market. When relative costs change, the rate of exchange rate pass-through is decreasing in quality in high income countries, yet increasing in quality in low-income countries. We then document that these predictions receive empirical support in a dataset of prices and quality in the European car industry.

Parallel Session VI, Wednesday, 08:30-09:15

B: Marcelo Olarreaga - Trading Unemployment

We embed a static Diamond-Mortensen-Pissarides model of labor market frictions à la Helpman and Isthokhi into a Dornbush-Fischer-Samuelson Ricardian trade model. The impact of trade on unemployment depends on the correlation between comparative advantage and sector level labor market frictions. If the correlation is large and positive then trade liberalization leads to an increase in unemployment, whereas if the correlation is large and negative then unemployment falls as the economy opens up to trade. This prediction is empirically confirmed in a panel of 97 countries during the period 1995-2009.

E: Peter Egger - The Effect of Tax Instruments on Income and Consumption in the Global Economy

We formulate a structural empirical general equilibrium model of bilateral trade among multiple countries which features three key aspects: a fundamental heterogeneity of economic actors (firms and consumers), non-homothetic preferences of consumers, and a broad consideration of taxes (on income, profits, and imports). All types of taxes in this model exhibit more or less direct redistributive effects on consumers: they take -- on net -- income from richer consumers and more profitable firms and, through lump-sum transfers, benefit poorer consumers relatively more than richer ones. The model unveils that non-tariff features of the tax system exhibit large effects on the volume of domestic as well as cross-border demand for goods. The associated effects tend to be larger than those that tariffs could have in most economies, and they are of heterogeneous magnitude across economies accruing to three fundamental sources: the heterogeneity in the dispersion of incomes, firm (i.e., technology) heterogeneity, economic size, and trade costs.

Parallel Session VII, Wednesday, 09:25-10:10

B: Germán Pupato - Performance Pay, Trade and Inequality

This paper introduces moral hazard into a standard general equilibrium model with heterogeneous firms, to study the impact of trade liberalization on wage inequality between identical workers. I show that trade liberalization operates on two margins of inequality, generating between- and within-firm wage dispersion. While the former channel has been studied in recent papers, the latter is novel in the literature. In the model, within-firm wage dispersion increases in firm productivity as a result of differential intensity in performance-pay compensation across firms. International trade liberalization generates labor reallocations towards high productivity firms that result in higher within-firm inequality.

E: Christian Kiedaisch - The Effect of Inequality on International Patent Applications

In this paper, a model with non-homothetic preferences is analyzed in which inequality affects the incentives to innovate through the channel of demand. It is shown that the relative importance of market size and price effects depends on the size of the population and on total income and that inequality is more likely to be harmful (or less likely to be beneficial) for innovation the higher GDP per capita is. The model is extended to a multi-country setting in order to make predictions about how population size, GDP and the level of inequality within a country affect the number of international patents that are validated in the country. In an empirical analysis based on PATSTAT data, we find a positive association between inequality and international patent flows when per capita income of a country is low and a negative association when per capita income is high. These results are in line with the model predictions and robust to the inclusion of several control variables.

Parallel Session VIII, Wednesday, 10:30-11:15

B: Eric Toulemonde - Trade under monopsonistic competition

We develop a model of trade under monopsonistic competition. We consider two countries: a country in which firms have weak monopsony power and thus high wages (Home) and another country with the opposite features (Foreign). We show that Home is an exporter of the produced good despite it is also the high wage country. The low-wage country exports the non-produced good. Because wages are higher in Home, firms are bigger in order to cover their fixed costs. Hence, fewer resources are wasted in fixed requirements at Home, which allows the country to produce more than its consumption. The opposite holds in Foreign: wages are lower, which promotes entry of more small firms. Hence, more resources are wasted in fixed costs and the country is not able to produce its whole consumption. In other words, the marginal productivity is the same in both countries but the average productivity is higher in Home.

E: Michael Böhm - The Wage Effects of Job Polarizations

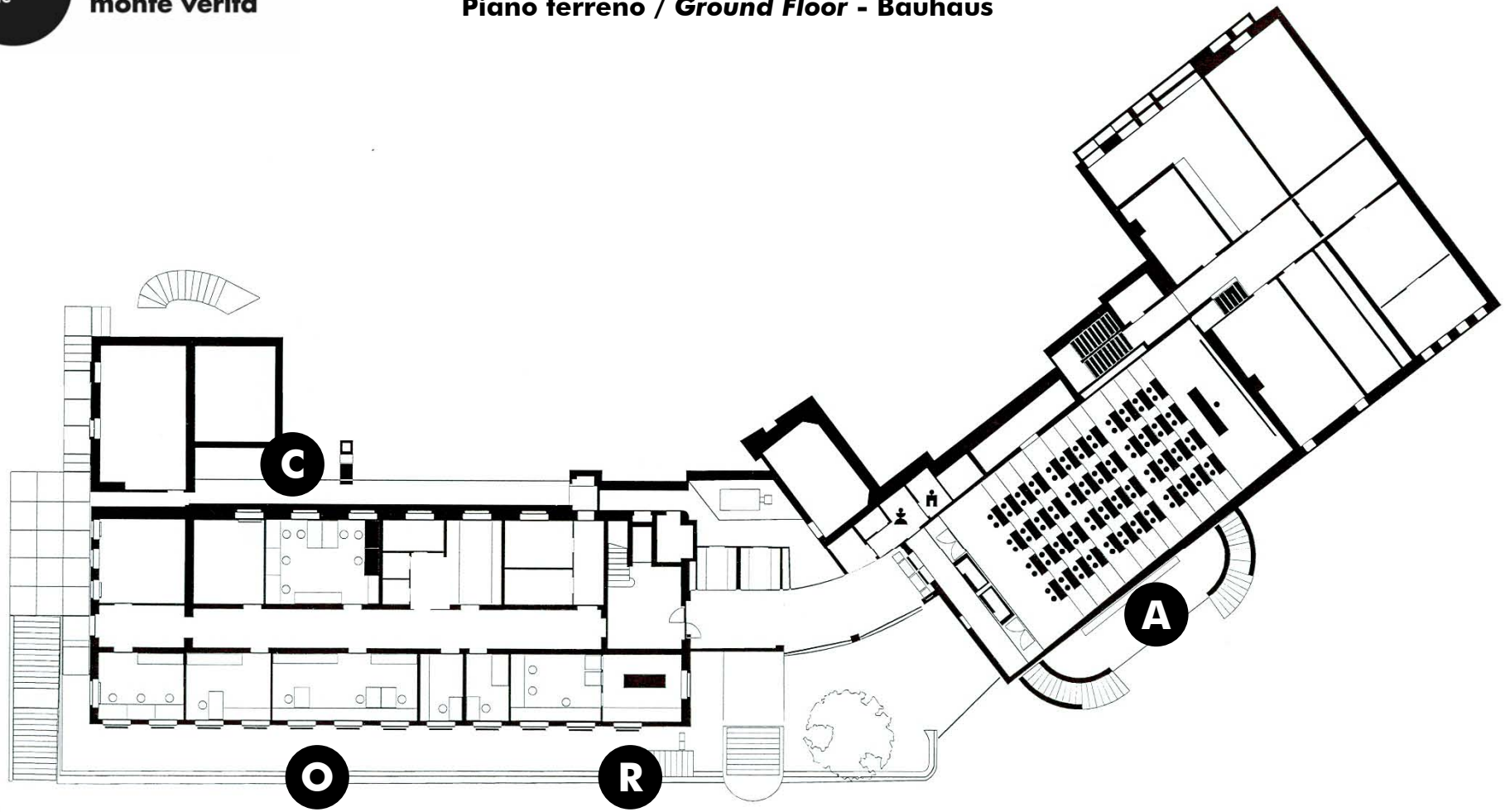
This article studies the wage effects of job polarization on 27 year old male workers from the cohorts of the National Longitudinal Survey of Youth. Guided by a Roy model of occupational choice I compare workers who have characteristics that put them into high-, middle-, and low-skill occupations over the two cohorts. Results indicate that the relative wages of middle-skill occupation workers have dropped. The effect of job polarization on the overall wage distribution that is implied by the model explains the increase at the top of the actual distribution but it has difficulty matching the increase at the bottom.



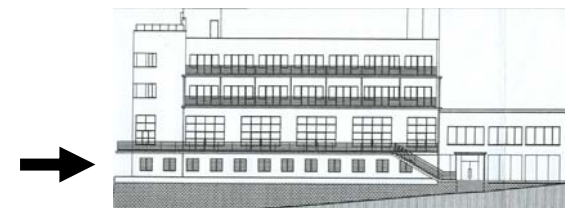
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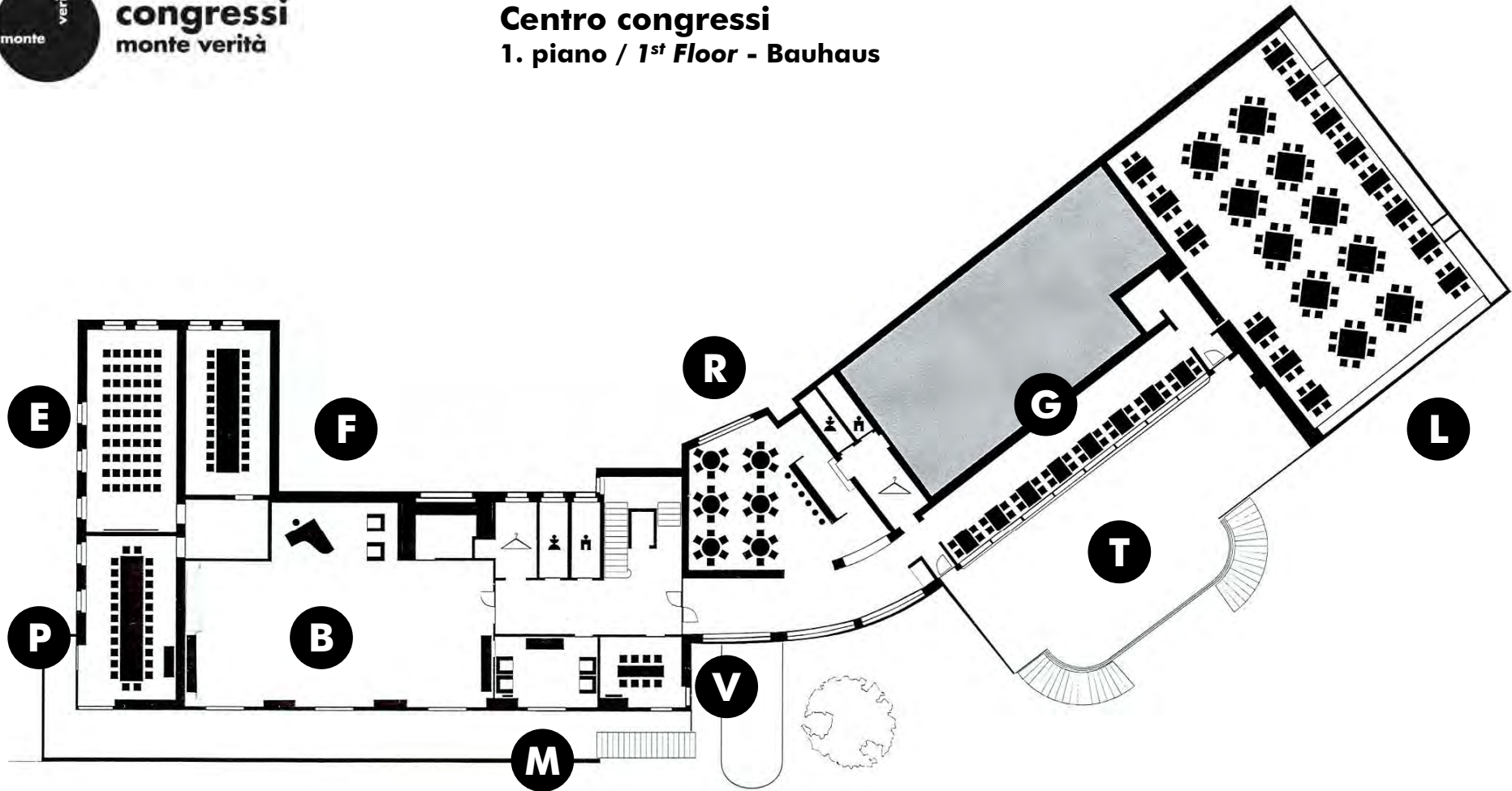
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- R** Ricezione / Reception
- C** Computer-Room
- O** Ufficio congressi / Conference Office





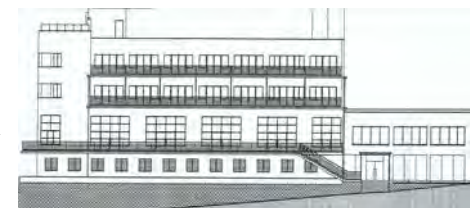
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- B** Sala Balint
- P** Sala Pioda
- E** Sala Eranos
- F** Sala Fahrenkamp
- M** Sala Mandala
- V** Sala Von der Heydt

- L** Sala Luce
- G** Galleria del Barone
- R** Bar Roccia
- T** Terrazza panoramica
Panoramic Terrace





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- 1 Museo Casa Anatta
- 2 Casa Selma
- 3 Elisarion "Chiaro nel mondo dei beati"
- 4 Casa dei Russi
- 5 Centro congressuale
- 6 Albergo Bauhaus
- 7 Villa Semiramis
- 8 Casa Amicizia
- 9 Ristorante con terrazza panoramica
- 10 Bar Roccia
- 11 Bar Piscina (eventi)
- 12 Spazio open-air Piscina
- 13 Percorso "Arcobaleno di Chiara"
- 14 Tennis
- 15 Giardino delle erbe
- 16 Progetto tè verde
- 17 Casa Loreley
- 18 Casa Giovanna
- 19 Casa Gioia
- 20 Casa Marta
- Sentiero