Variety Trade and Skill Premium in a Calibrated General Equilibrium Model: The Case of Mexico

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Abstract

It can be theoretically shown that variety trade can be a possible source of increased skill premium in wages. No past studies, however, have empirically quantified how much of the increase in skill premium can be accounted for by the increase in variety trade. This paper now formulates a static general equilibrium model and then calibrates it to the Mexican input-output matrix for 1987. In the calibrated model, our numerical experiments show that the increase in U.S.-Mexican variety trade can explain approximately 12 percent of the actual increase in skill premium in Mexico from 1987 to 2000.

Keywords: Variety Trade, Skill Premium, Variety-Skill Complementarity, Calibrated General Equilibrium Model, Mexico

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