

A Simple Model of Competition Policies, Trade and the Skill Premium

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Abstract

This paper develops a simple, general equilibrium model in which competition policies—both entry and antitrust policies—can change the skill premium in wages. The model shows that under variety-skill complementarity, entry deregulation that reduces the fixed costs of entry increases the skill premium through an increase in firm numbers and a decrease in firm size. However, under variety-skill complementarity, antitrust policy that reduces the size of cartels decreases the skill premium through a decrease in firm numbers and an increase in firm size. We also extend the model to a two-country model. The extended model shows that through trade, competition policies can have cross-country effects on the skill premium in various ways.

Keywords: Entry policy, Antitrust policy, Firm numbers, Firm size, Skill premium, Variety-skill complementarity, Trade

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