

Why Haven't Global Markets Reduced Inequality?

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- Because that theory is so important, worth reviewing *why* it makes this prediction

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- Assume 2 factors: high-skill labor and low-skill labor

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- emerging economy has comparative advantage producing goods where skill doesn't matter so much - - e.g., rice

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 - emerging economy's labor force better suited to rice

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 - puts them in higher demand

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 - this has not generally happened

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- wages will depend on how workers of different skill levels “matched” together to produce output

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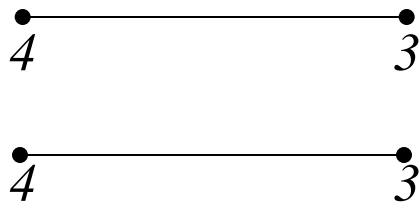
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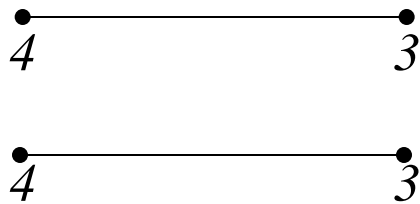
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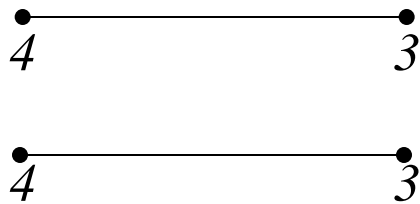
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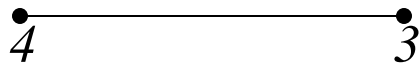
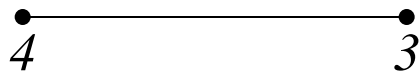


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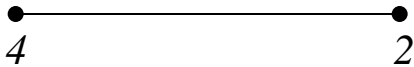
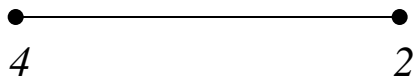
- competition ensures matching pattern maximizes output
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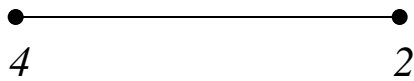
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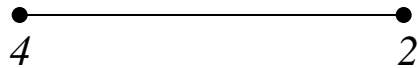
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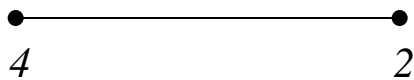
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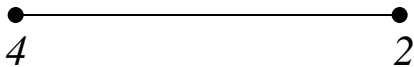
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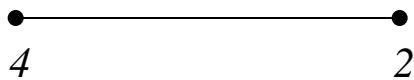
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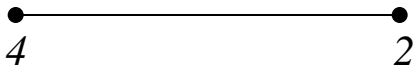
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- here expect *homogeneous-matching*

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 - depends on available distribution of skills

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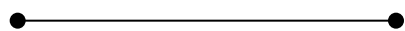
$$B = 8$$

$$C = 6$$

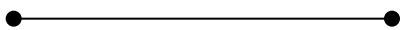
$$D = 4$$

Pre-globalization (no international production)

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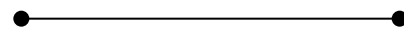


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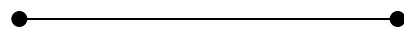


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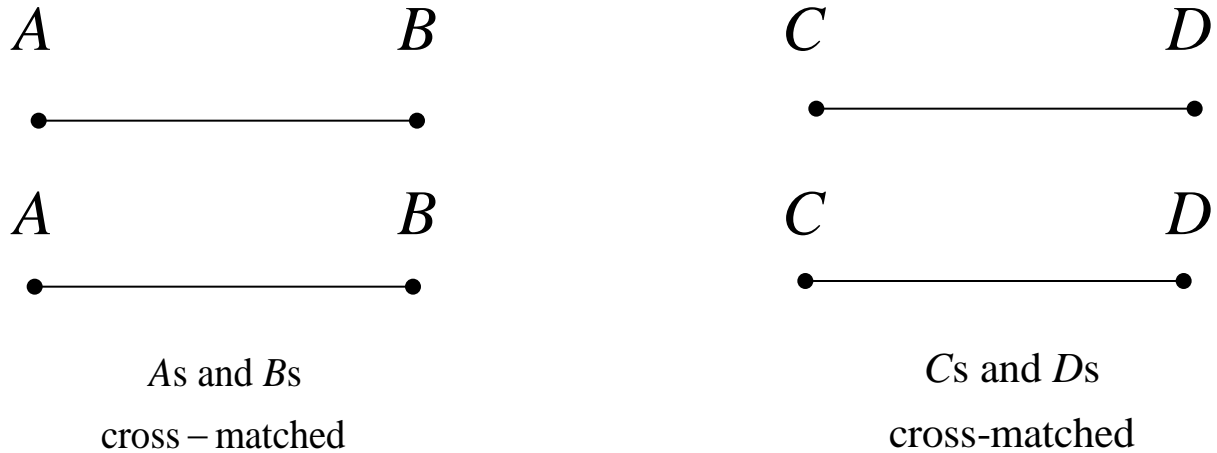


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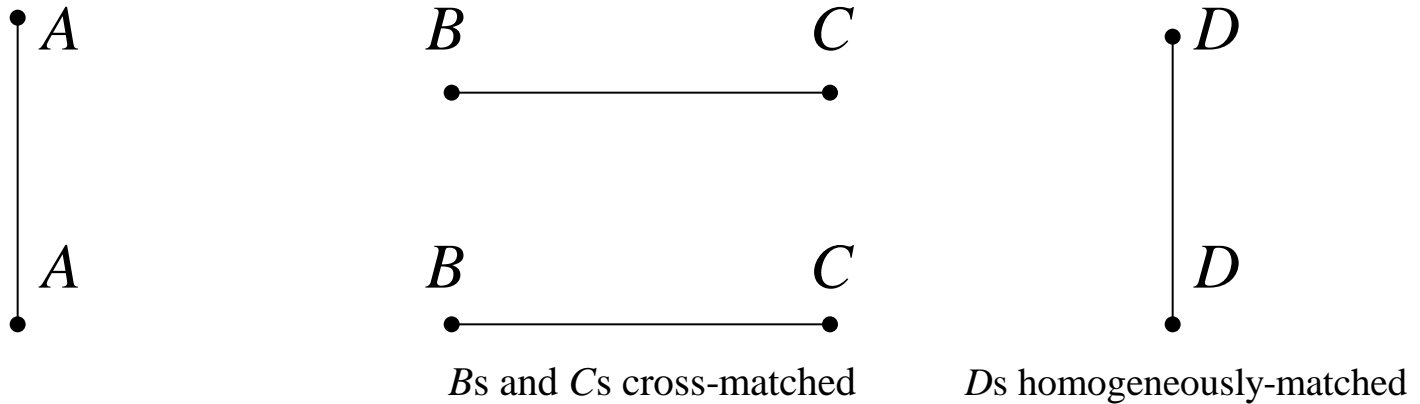


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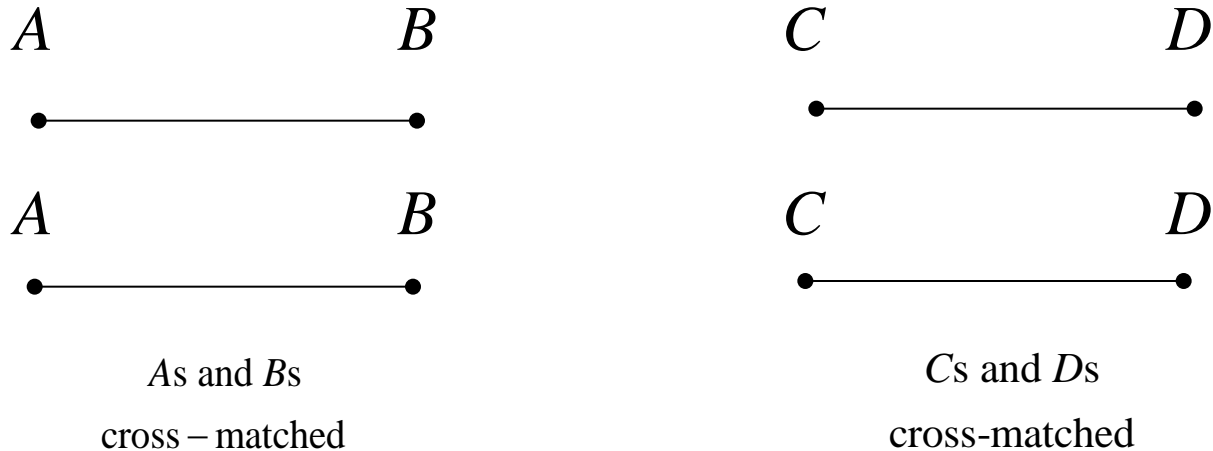
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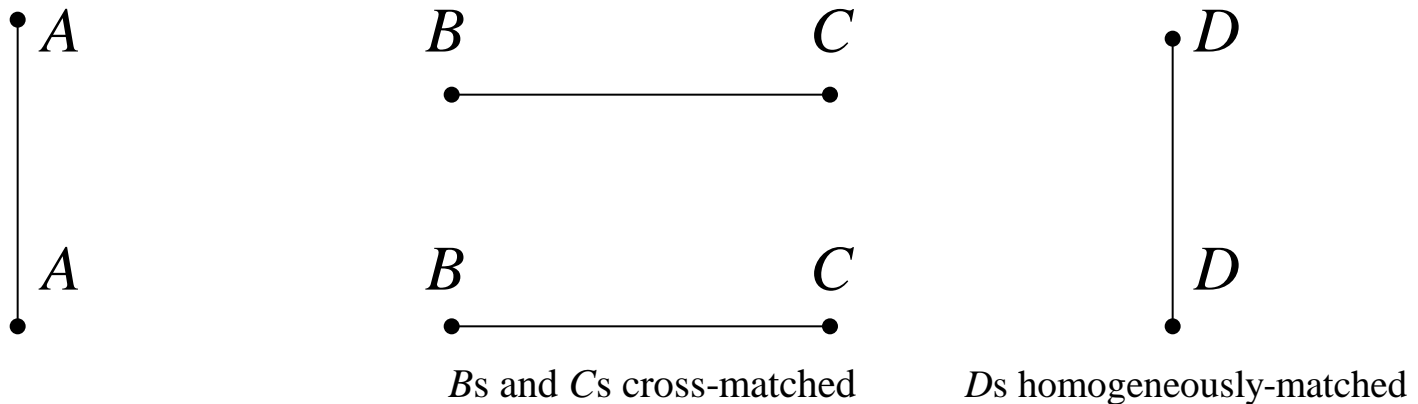
Post-globalization (international production possible)



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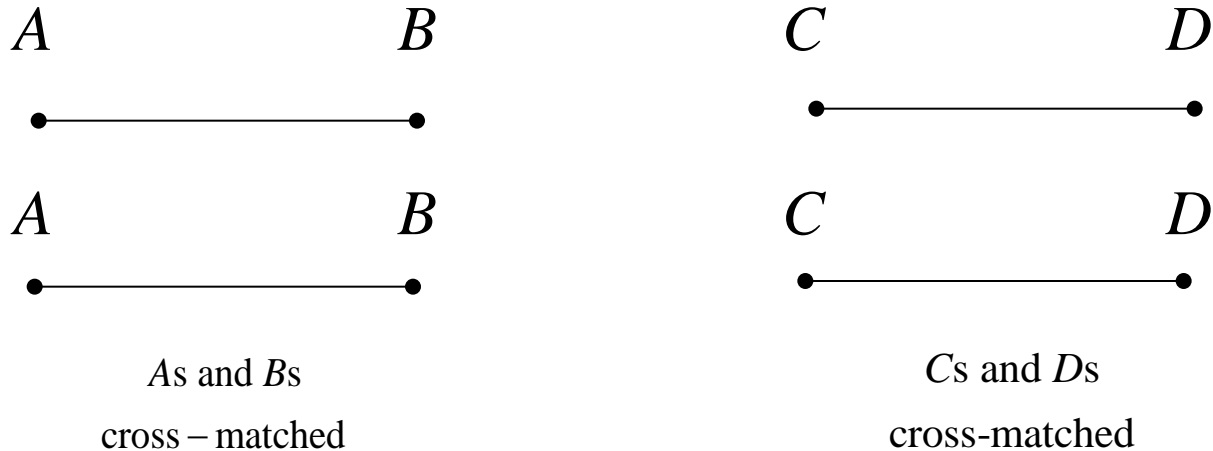


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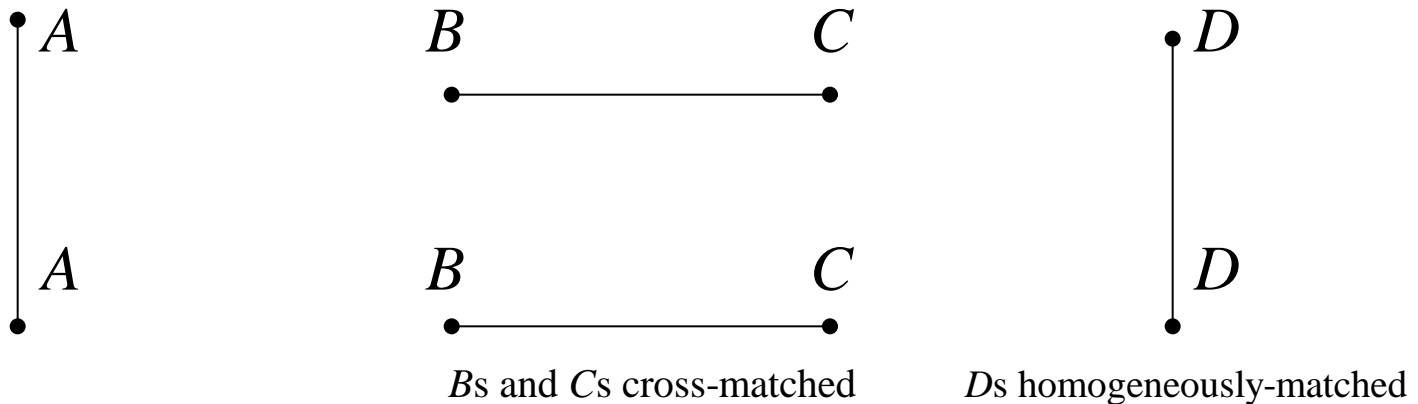


- Similar conclusion for other skill distributions

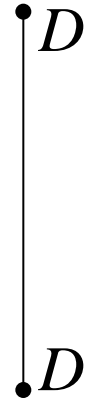
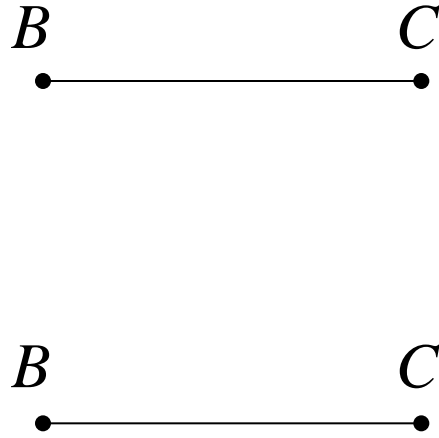
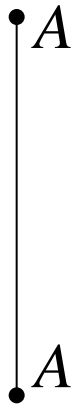
Pre-globalization (no international production)

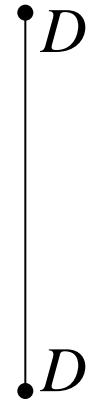
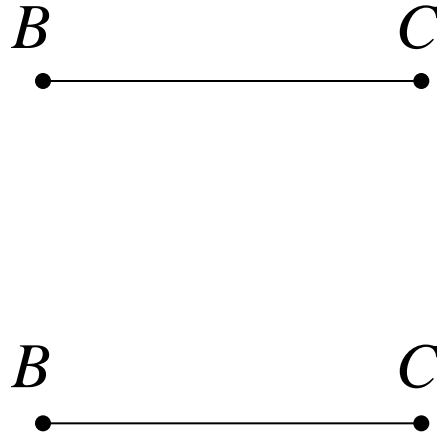
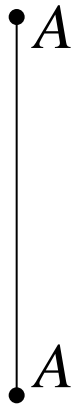


Post-globalization (international production possible)

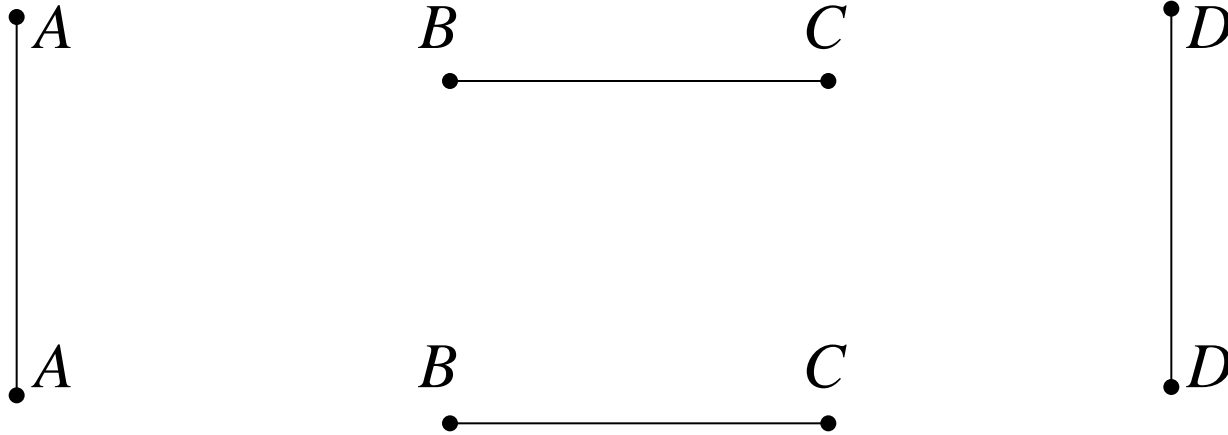


- Similar conclusion for other skill distributions
 - what's important is that *D*-worker's skill not high enough to match with *B*- or *A*- workers

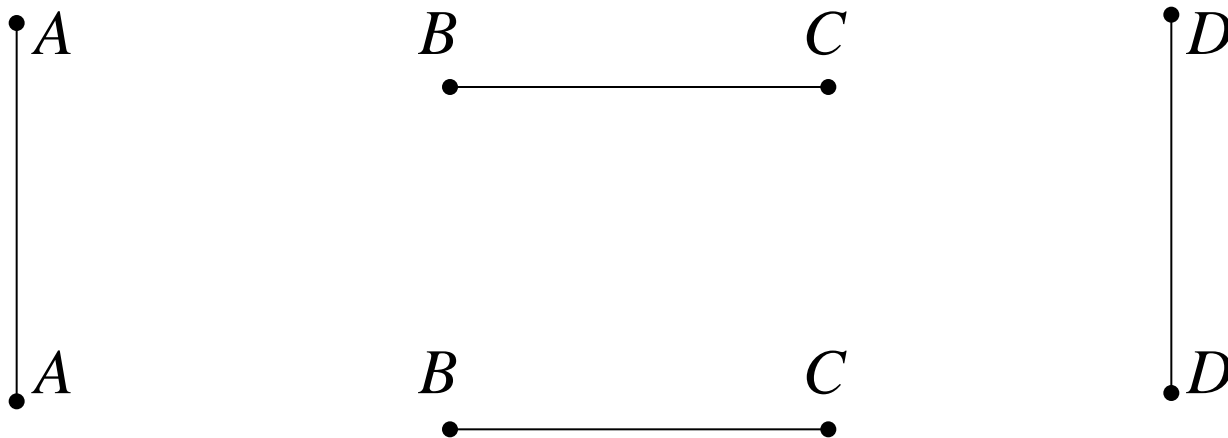




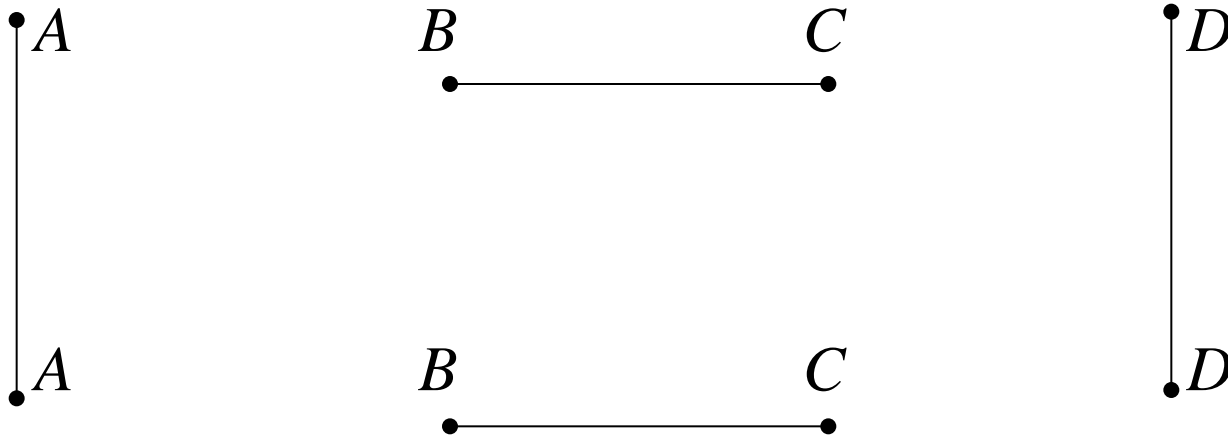
- What is effect of globalization on wages?



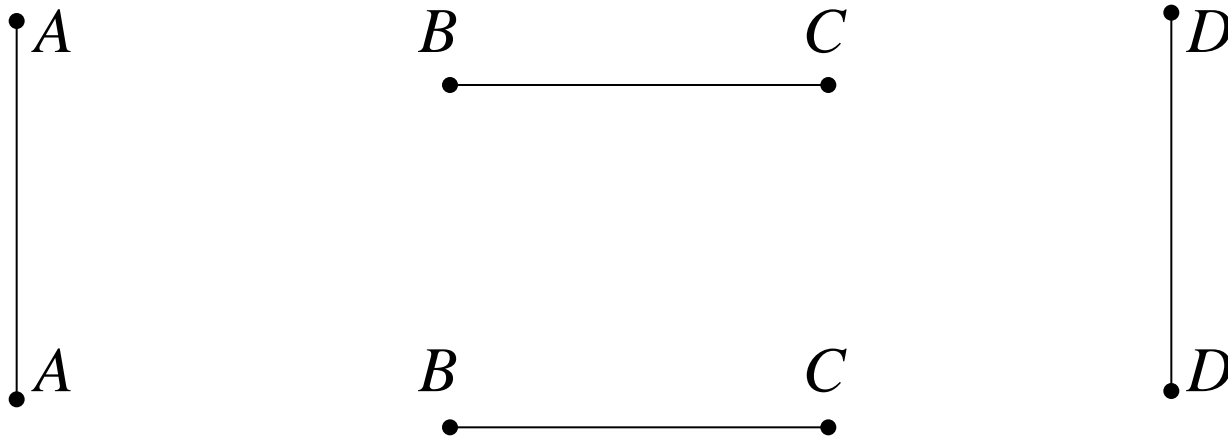
- What is effect of globalization on wages?
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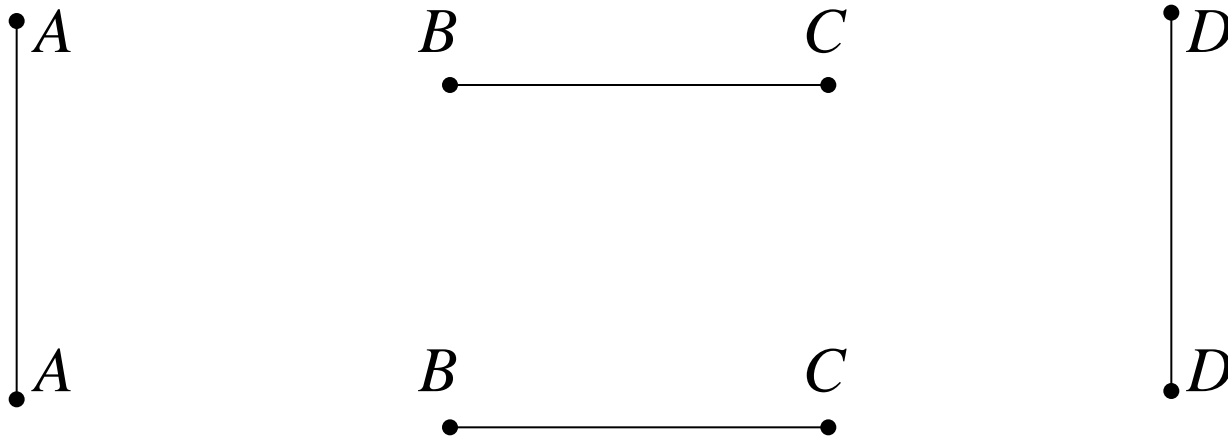
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