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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- so, low-skill wages *rise* and high-skill wages *fall*

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- inequality fell in Europe (and rose in U.S.)

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this has not generally happened

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  - today: 4 levels

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

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  - ensures that workers paid according to productivity

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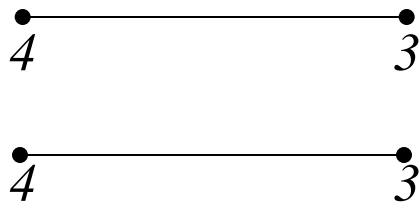
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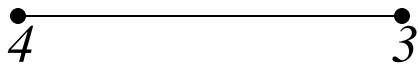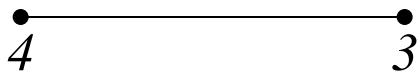
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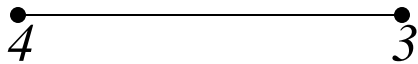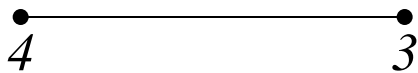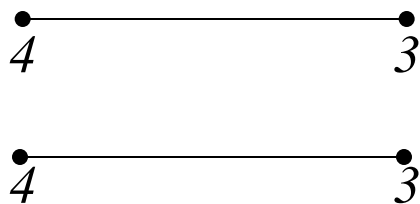
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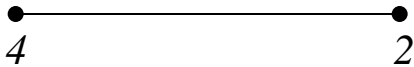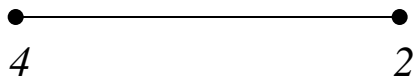
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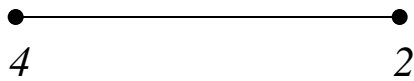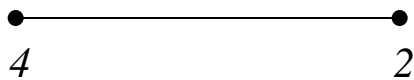
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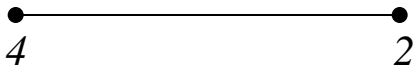
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  - depends on available distribution of skills

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$A = 13$

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$C = 6$

$D = 4$

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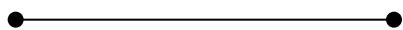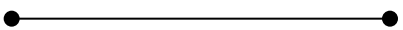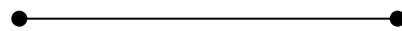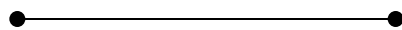
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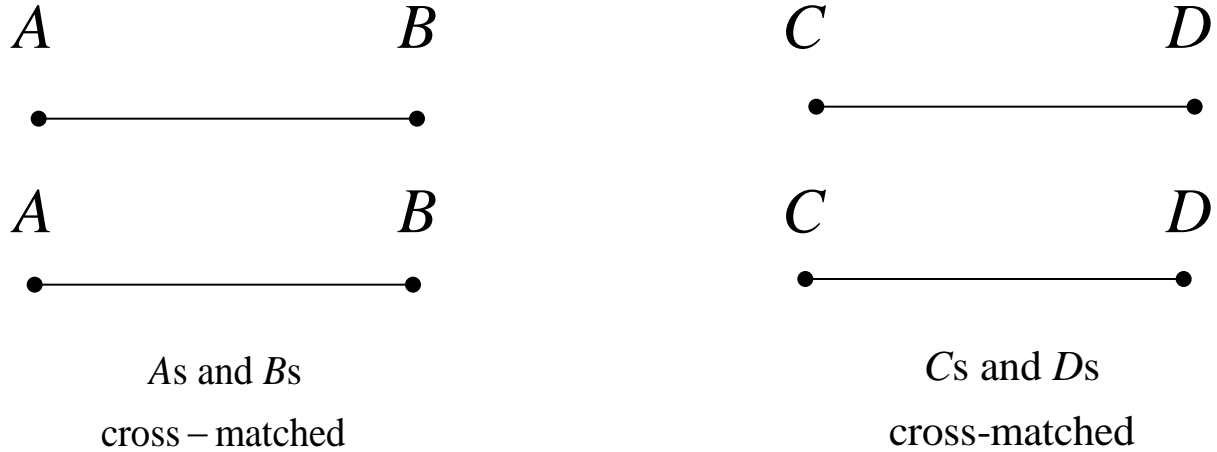
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Post-globalization (international production possible)

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A   B   C   D

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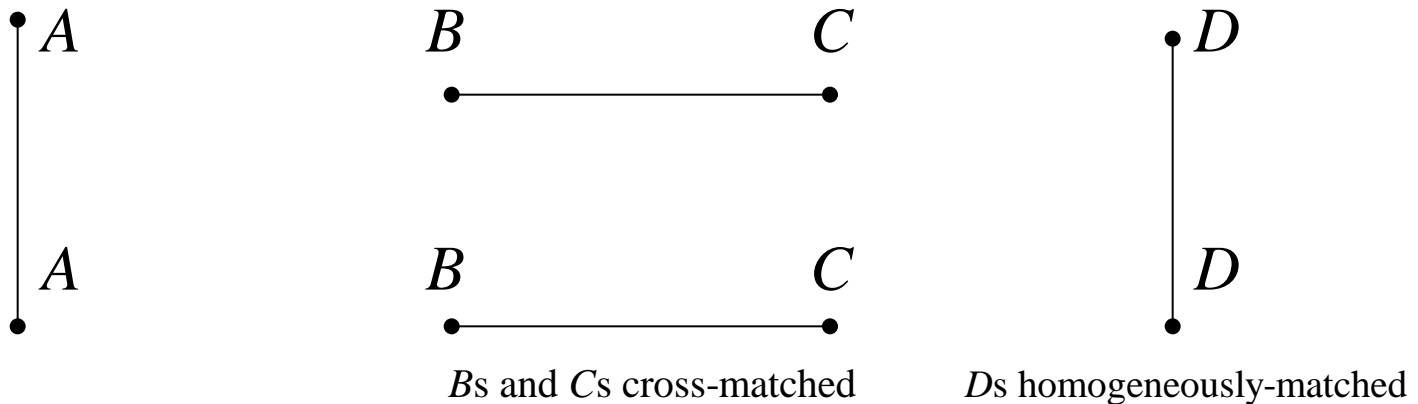
Bs and Cs cross-matched Ds homogeneously-matched
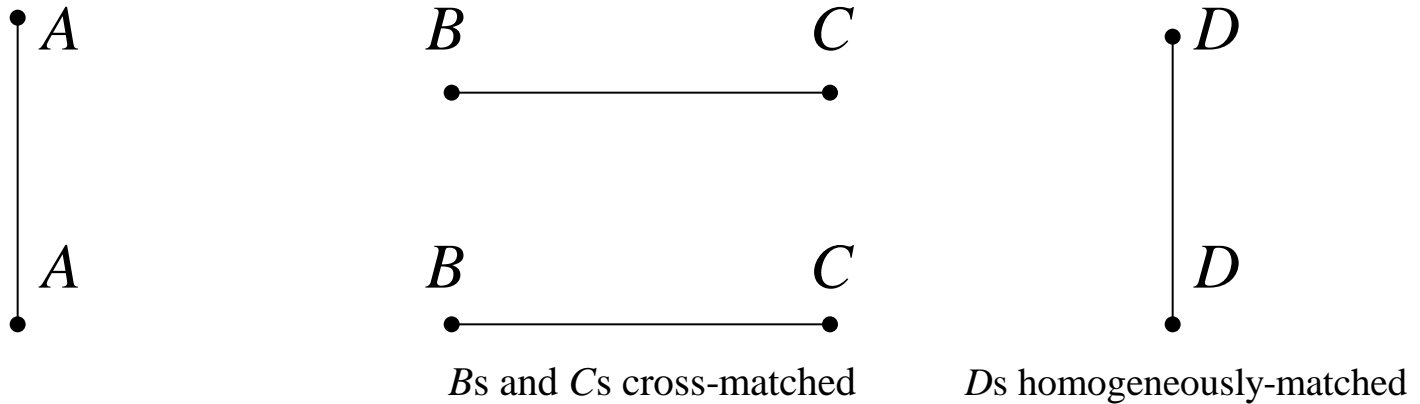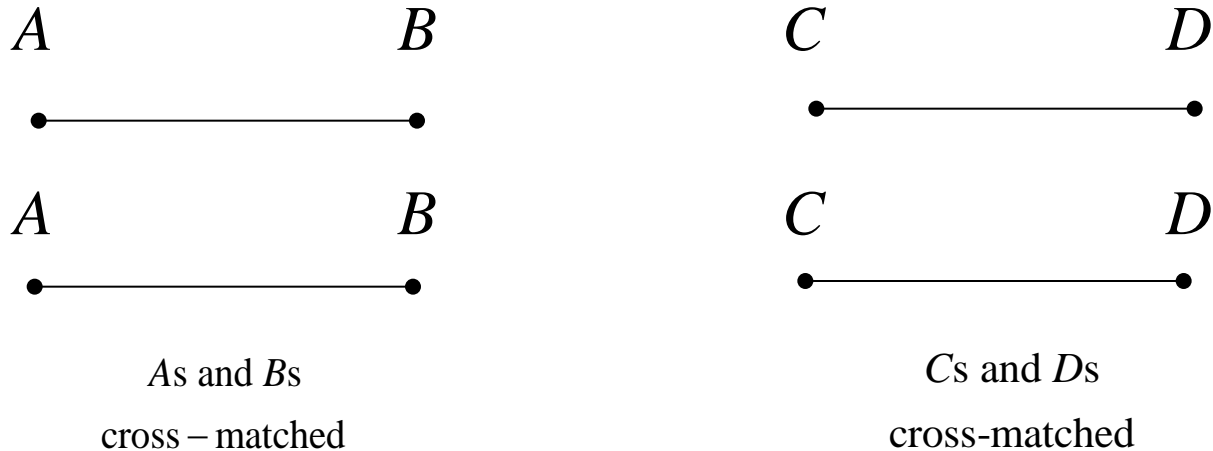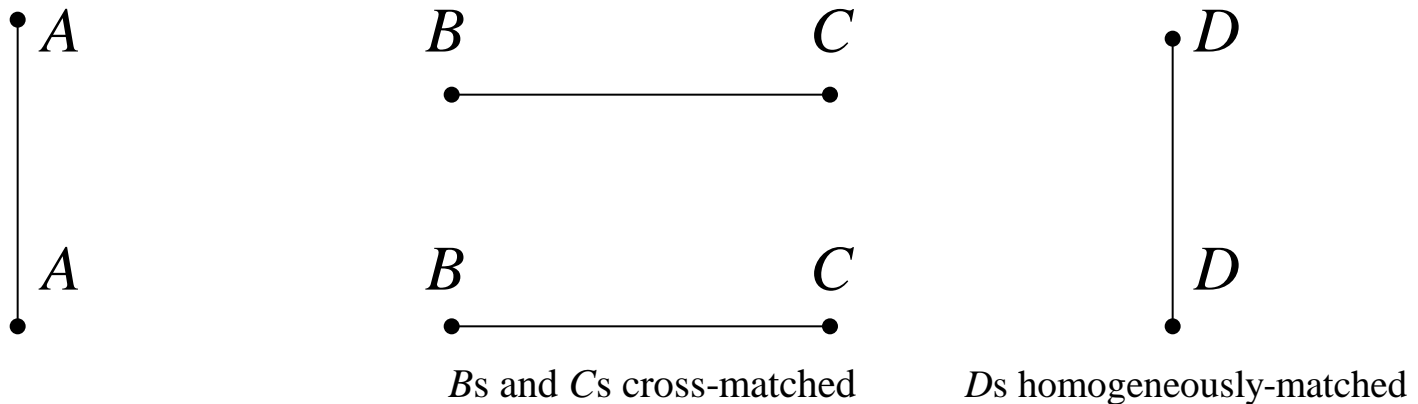
- Similar conclusion for other skill distributions
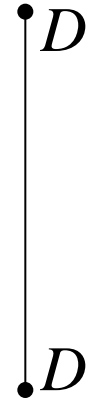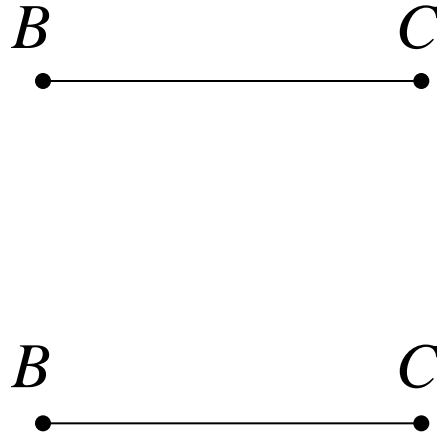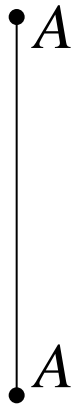
Pre-globalization (no international production)
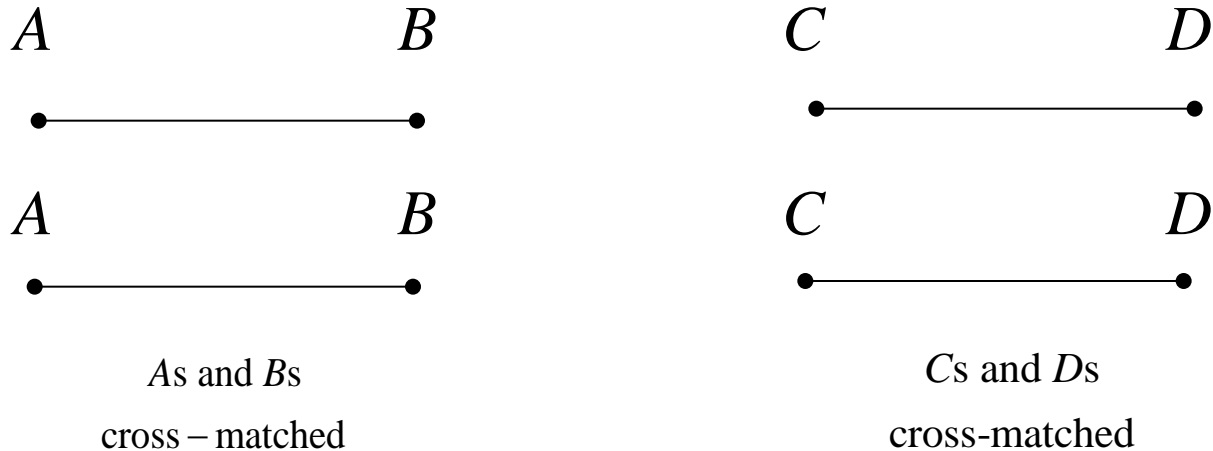
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*A*s and *B*s

cross – matched

*C*s and *D*s

cross-matched

Post-globalization (international production possible)

A B C D

A B C D

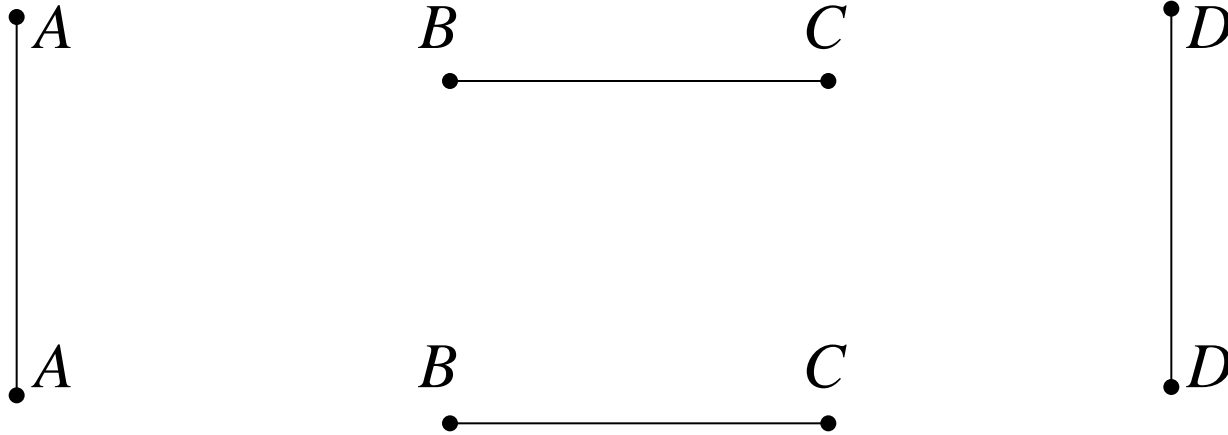*B*s and *C*s cross-matched   *D*s homogeneously-matched

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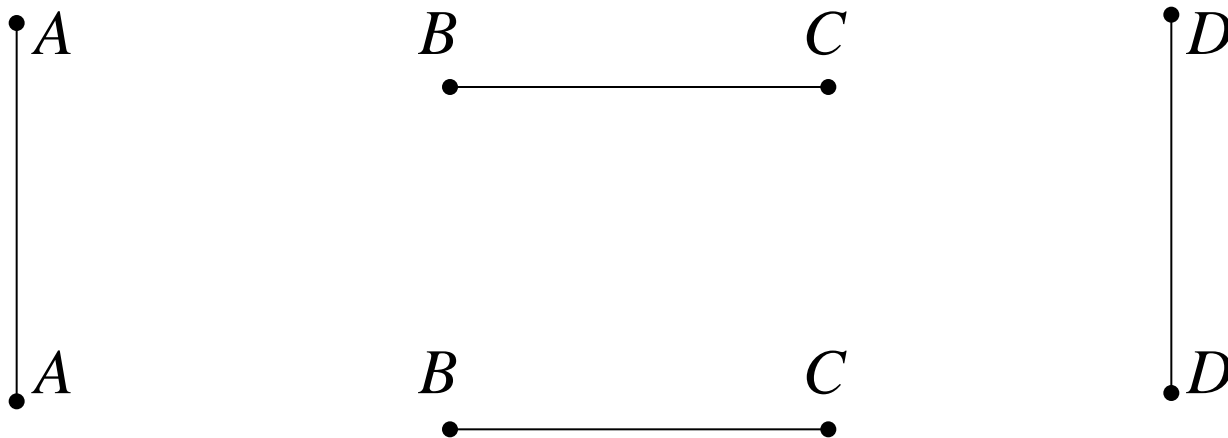 - what's important is that *D*-worker's skill not high enough to match with *B*- or *A*- workers
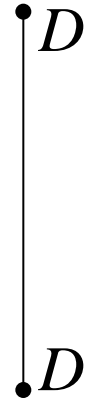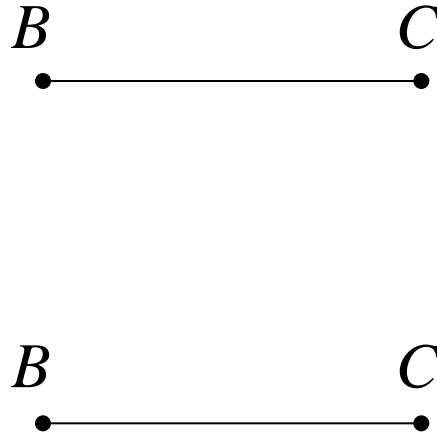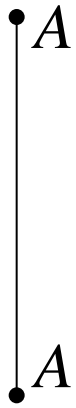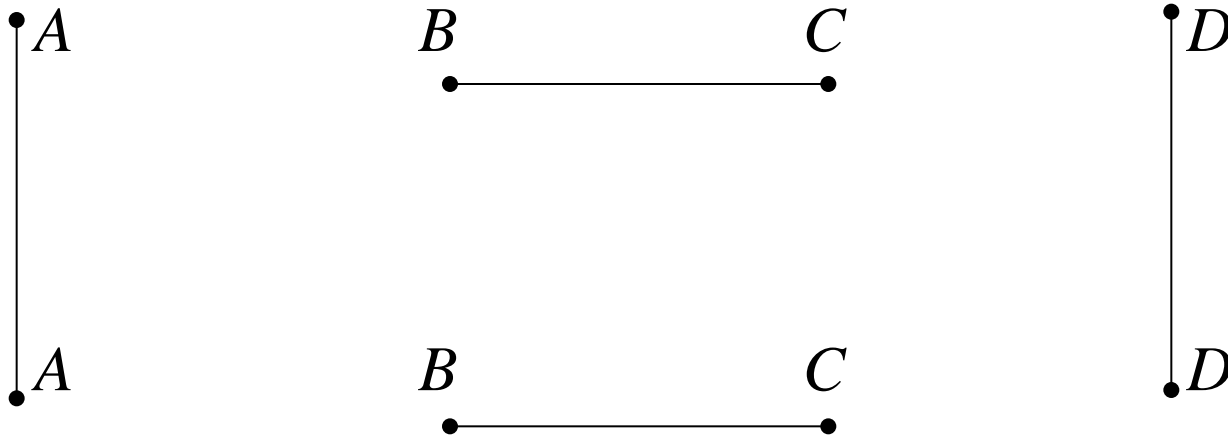
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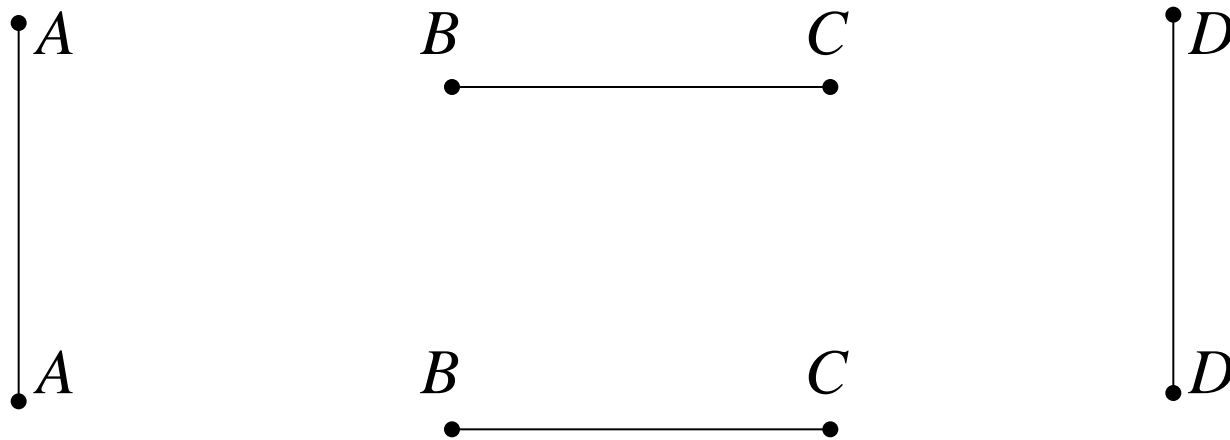 - Before globalization, *D*-workers benefited from being matched with higher-skill *C*-workers (this enhanced their productivity)

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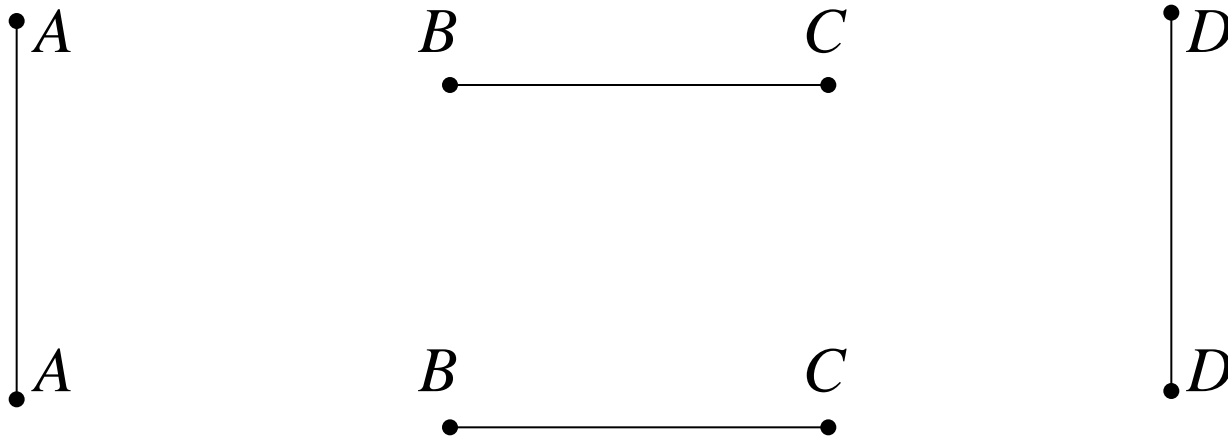   - So *D*-worker wages *fall*

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- So inequality in emerging country is made *worse*

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- allow low-skill workers share benefits by investing in their training