

Effects of Globalization on the Educational Choice by Workers and the Skilled Unemployment

Chihiro Inaba (Kansai Gaidai University)

And

Noritsugu Nakanishi (Kobe University)

Abstract

By using a variation of the Melitz-type monopolistically competitive trade model with labor market friction, we analyze how trade liberalization affects the local employment of both skilled and unskilled workers, workers' occupational choices, and the wage inequality between skilled and unskilled workers. We show that, if the bargaining power of the skilled workers is sufficiently high, then trade liberalization brings about (i) an increase in the expected lifetime skilled income; (ii) an increase in the lifetime unskilled income; (iii) a reallocation of workers from low-skilled to high-skilled; (iv) an increase in the production cutoff; (v) a decrease in the market tightness; and (vi) an increase in the skilled unemployment rate. Further we show that a reduction of the education cost results in (i) an increase in the lifetime unskilled income; (ii) a reallocation of workers from low-skilled to high-skilled; (iii) an increase in the production cutoff; (iv) a decrease in the market tightness; and (v) an increase in the skilled unemployment rate.