The Division of Labor and The Impact of Intra-Industry Trade on Firm Productivity

Koji Shintaku*
Graduate School of Economics, Kyoto University

Abstract

Constructing a monopolistic competition model of intra-industry trade with division of labor within the firm, this paper shows that opening trade improves firm productivity. The findings indicate that if there are fixed trade costs in trading equilibrium, opening trade improves firm productivity and raise real wage and make some firms exit in the same way as Melitz (2003). In contrast to Melitz (2003), welfare doesn't necessarily rise. Whether welfare rises up or not is determined by Whether the effect of rising real wage dominates the effect of decreasing the number of varieties or not.

Keywords: Division of Labor within the Firm; Endogenous Firm Productivity; Monopolistic Competition; Intra-industry Trade
JEL classification numbers : F12

*Corresponding author. Graduate School of Economics, Kyoto University, Yoshida Honmachi, Sakyo-ku, Kyoto 606-8501, Japan. E-mail address: shintaku.shitanku@gmail.com.