

Trade Effects on Wage Inequality through Worker and Firm Heterogeneity

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Abstract: This study estimates the trade effect on wage inequality of Japanese manufacturing workers, with consideration of worker and firm heterogeneity. Parameters are obtained from regression results of annual income by using constructed worker–establishment panel data. The estimated wage change is positively larger for higher-paid, high-skilled workers, who are employed by larger firms, while it is negatively larger for lower-paid workers, regardless of their industries. Estimation shows that wage inequality between industry–size–skill groups increases when world trade expands, consistent with the actual evolution of wage inequality during 1998–2013. However, estimated wage effects differ largely by trade indexes.

JEL codes: F16, F66, J31

Keywords: Wage inequality; Worker heterogeneity; Firm heterogeneity; Skill premiums

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