

Diversity and Offshoring

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Abstract

How does the distribution of human capital affect offshoring? To study this question, we extend Grossman and Maggi (2000) to allow offshoring, which means that workers in different countries can collaborate in teams. We first examine how changes in the average skill level and skill diversity affect matching patterns and wage schedules under autarky. Next, we investigate the effects of offshoring and compare the equilibria under offshoring with its corresponding equilibria under free trade. We demonstrate that if two countries differ in skill diversity but share the same average skill level, the equilibrium under offshoring is the same as the equilibrium under free trade. The wages of workers with the same skill level are equalized under free trade, and thus, there is no incentive for offshoring to occur. However, if two countries only differ in the average skill, the equilibrium under offshoring is different from the equilibrium under free trade. The wages of workers with the same skill level under free trade are not equalized across countries, and thus offshoring can occur. Furthermore, we demonstrate that offshoring and free trade have different effects on the welfare of the workers with the highest and lowest skill levels.

Keyword: skill distribution, offshoring, supermodularity and submodularity

References

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