

**Trade Liberalization, an Employment Double-Dividend Hypothesis,
and Welfare with Heterogeneous Firms**

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Abstract

Can trade liberalization deliver an employment double dividend and a welfare gain? To answer this question, we develop a trade model with firm heterogeneity, search and matching frictions, and an emissions tax. Decomposing the impact of trade liberalization on the amount of emissions into four forces, we first analytically show that trade liberalization may or may not support an employment double-dividend hypothesis, and that it may deliver a welfare loss. We then simulate our model and find that though it is rejected, a deliberate investment in abatement technology enables an economy to transit to a clean equilibrium with lower unemployment.

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