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Abstract

I develop and calibrate a dynamic general-equilibrium trade model with endogenous skill demand and supply. Simulations show that removing US trade barriers would lead to aggregate gains in the United States of 4.5%. Individual workers' gains, however, depend on their education, age and birth cohort. The biggest winners, the oldest educated workers alive during trade liberalization, gain 6.7%, while their uneducated peers gain the least, only 1.2%. A major finding is that ignoring either the endogeneity of the skill supply or the post-liberalization dynamics, as the existing literature does, leads to a substantial bias in the quantitative assessment of trade liberalization.

Keywords: Trade liberalization; Wage inequality; Skill premium; Education
JEL Classifications: F16; F66; I24; J24; J31

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