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ACCEPTED MANUSCRIPT

Trade and Towns: Heterogeneous Adjustment to a Border Shock*

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Abstract

We study the effects of changes in trade openness on wages and employment across towns of different sizes, using Austrian regional data and the fall of the Iron Curtain as a quasi-experimental setting. We find improved access to foreign markets to boost both employment and nominal wages in border regions, but large towns tend to have larger wage responses and smaller employment responses than small towns. These adjustment patterns are consistent with a multi-region model featuring labor supply elasticities that vary with town size. The implied differential border-town welfare gains are related non-monotonically to town size, peaking at a population level of about 150,000.

JEL Classification: F15, R11, R12

Keywords: trade liberalization, city size, spatial adjustment, natural quasi-experiment

All tables and figures at end

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