



Max Weber Lecture

18 May 2011, 17.00, Max Weber Programme,
Villa La Fonte, Conference Room

“Trade and Labor Market Outcome”

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Abstract:

The lecture will discuss a new framework for analyzing the interrelationship between inequality, unemployment, labor market frictions, and foreign trade, which emphasizes firm heterogeneity and search and matching frictions in labor markets. It implies that the opening of trade may raise inequality and unemployment, but always raises welfare. Unilateral reductions in labor market frictions increase a country's welfare, can raise or reduce its unemployment rate, yet always hurt the country's trade partner. Unemployment benefits can alleviate the distortions in a country's labor market in some cases, but they can never implement the constrained Pareto optimal allocation. Policies in product and labor markets that implement the best constrained allocation will be characterized, and cases in which unemployment benefits can be part of such policy packages will be discussed.