

How Large is the Impact of Trade on Inequality? A New Factor Content of Trade Approach*

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Abstract

How are relative earnings across individuals (such as an economy's collection of workers and firm owners) affected by openness to international trade? Extending the insights of Deardorff and Staiger (1988) to an arbitrary neoclassical economy, we develop a new theoretical framework for answering this question as a function of each individual's factor content of trade and the economy's factor demand system. We use a unique merged dataset (drawing on firm-to-firm transaction data, employer-employee matched data, owner-firm matched data, and firm-level customs transaction records) in order to measure the factor content of trade for each formal sector-engaged individual in Ecuador and to estimate the factor demand system for that country.

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