The model provides a complete picture to study the effects of foreign job creation on employment and wage differences and it also allows studying the effects of technology and skill upgrading on employment and the wage differentials!

Motivation

Evidence on labor mobility in a theoretical set-up is scarce and far from conclusive!

Purpose

- To fill this theoretical void by constructing a model allowing for wage differences across skilled and unskilled workers as well as difference across local and foreign firms
- To study unemployment effects
- To examine the labor market implications of the entry of foreign firms by using search and matching models.
Modeling: Search and Matching Models

- A number of unskilled and skilled workers, who are either unemployed or employed.

- Vacancies are posted by local and foreign firms looking for unskilled and skilled workers.

  - Job creation cost
  - Matching function
  - A nash-bargaining approach, (linear sharing rule)
  - On the job search
  - Different productivities across firms and workers
Findings of the Model

Wages are a weighted average of labor productivity and unemployment benefit, where the weight depends on the bargaining power of the workers, labor market tightness and the mass of local and foreign vacancies.

Skilled (unskilled) workers in the foreign firm are not always paid more than skilled (unskilled) workers in local firm. The firm premium depends on the mass of vacancies created by the firms and the labor productivity.

The mass of vacant positions in the foreign firm depends on the job-creation costs and relative labor productivities. This model allows us to find:

- The firm premium could be greater or smaller than one depending on relative costs, skill endowment and technological gap between local and foreign firm.

An increase in foreign presence, defined as the share of foreign vacancies in total vacancy, can occur because of:

(a) exogenous change in cost- public policy.

(i) Level field making it worse for both local and foreign firms, leading to a decline in economy-wide skill and firm premium.

(i) Special treatment to foreign firm, leading to a decline in economy-wide skill premium and increase in firm premium.

(b) Technological improvements- foreign firm biased- increases both economy-wide skill and firm premium.

(c) Skill upgrading - decreases economy-wide skill premium and increases firm premium.
Depending on the cause of an increase in foreign presence we end up with differential relative wage effects, both on the skill and firm premium!