

# Discussion of Cravino and Sotelo Trade-induced ST and the Skill Premium

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$\implies \downarrow$  Relative Demand low-skill (by Fact 3)  $\rightarrow$  **Skill Premium**

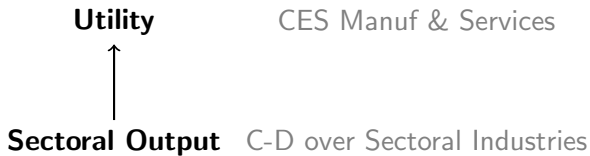
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**Utility**

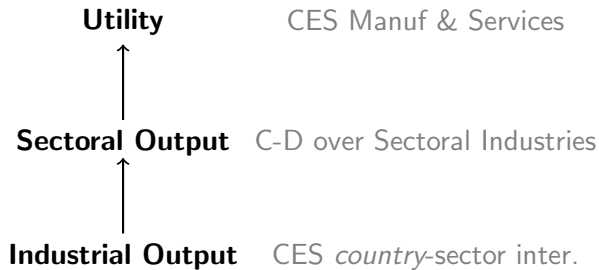
CES Manuf & Services



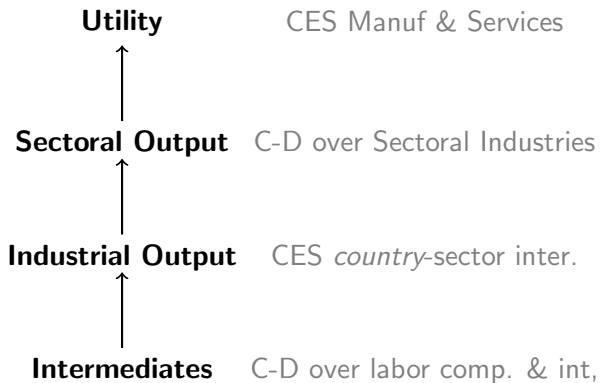
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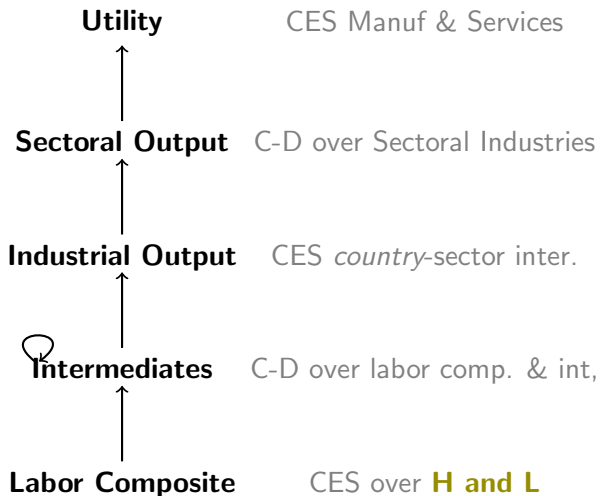
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- Basco-Mestieri (2013) changes in trade costs have become more skill-intensive in the 90s and 2000s relative to 80s.

# Economic Mechanism for ST

- Trade changes rel. prices (as technological improvements)
- Ngai-Pissarides logic:
  - ▶ VA share increases in sector that benefits less from trade,
  - ▶ ... which happens to be more skill-intensive.
- Caveat: open economy → export manufacturing to ROW
  - ▶ Not obvious a priori that total demand for manuf ↓
  - ▶ Need to calibrate the model to see which force dominates
  - ▶ Former dominates (except Germany, Austria and Brasil).

## Quantitative Exercise

- Use WIOD 1995-2007 to calibrate model.
- Assess model fit using counterfactuals.
- Better description of how fit is done (many details are only clear later!)
- Also for counterfactuals.

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- Change in Skill Premium:
  - ▶ Modest for rich countries (.6% for US)
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- I would like to see account of success relative to total change in SP (for both counterfactuals).

## Counterfactual 2\*

- Fit change in domestic shares and exports, 95-07, for each country separately.
- Holding rest in 95 (?), can account for more of the variation.
- Not clear it is trade only (other things change), not using full structure of the model. (Authors are completely upfront about it)
- I would like to see more of 1 and less than 2 (or to connect better 2 to 1 –perhaps providing upper bound or something like this?)

## Questions about some modeling choices

- Labor only used to produce intermediates
  - ▶ What if assembly requires labor and (probably) relatively skilled?
  - ▶ If allowed, trade only in intermediates even more restrictive!
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- Conceptually, trade can generate declines in real wages
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  - ▶ 3 types may be very interesting (middling for the US)
- ST actions happens mostly through Prices  $\sim$  Ngai-Pissarides
  - ▶ Could explore capital deepening (Baumol/ Acemoglu-Guerrieri) which is precluded by assumption (no capital endowments)
  - ▶ Nested CES with capital or CD exp. shares that vary over time?

## Questions about some modeling choices II

- Seemed more natural nested-CES Goods and Services and 2 types of Services
  - ▶ WP by Herrendorf, Duernecker and Valentinyi.
- What is the role of a country-sector specific ES in industrial output?
  - ▶ Not clear to me how it is disciplined in the data/is it needed to match industrial flows?

## Expositional comments\*

- Relate more results to overall changes to have a sense of magnitudes, especially for SP:
  - ▶ When using nonhomotheticities, SP change  $\uparrow$  24% but at this point I was not sure it was a lot or not. . .
  - ▶ Side (philosophical) note: nonhomotheticities and changes in prices are linked in equilibrium (long-run NH is what matters).
- Writing: I would try to make the paper even more transparent/clear, in some parts the flow of the paper hard to follow. (e.g., 3.2.1 and 3.2.3 same title, section 5.1.3 decomposes effect but 5.1.4 goes back to the overall without saying it explicitly)