Dissertation Abstract

Colin Jareb

This dissertation studies the implications of globalization using theoretical, empirical, and structural estimation techniques. I investigate heterogeneity in the effects of import tariffs, implications for estimating structural gravity equations with discrete good varieties, and geographical impacts of trade on inequality.

In my first chapter, titled "Trade Policy and the Decline of the Labor Share", I analyze the impact of tariffs on US imports that are used as inputs to manufacturing on labor market outcomes. I develop theoretical predictions using a model of final goods production in which firms combine labor, capital, and intermediate inputs. Utilizing changes in tariff rates, input-output tables, and local employment in the input sector, I develop a sector- and state-specific measure of exposure to tariffs in input markets. I estimate the effect of input market tariff exposure on labor market outcomes with a three-way fixed effects regression. An increase in tariff exposure is associated with increases in employment and wages; however, due to larger increases in output the labor share of output declines.

In my second chapter, titled "Gravity and the Law of Large Numbers", my coauthor and I examine the implications of uncertainty in gravity models of trade due to the violation of the Law of Large Numbers (LLN) that we document in the data. When the number of available technologies (or traded goods) is finite and the LLN does not hold, the variance of the stochastic component in gravity models is large, which leads to the poor goodness of fit of gravity models and high uncertainty in comparative statics results. We offer a procedure that specifies counterfactual predictions in terms of distributions rather than point estimates and helps to account for such uncertainty.

In my third chapter, title "Trade and Inequality: Evidence from the United States", I examine the effects of globalization on regional inequality. I directly measure import and export shares for US states and develop a geography based instrument to quantify the causal effect of trade on income inequality. I decompose income inequality on a variety of worker characteristics and estimate a 2 stage least squares model. I find little evidence of a relationship between trade and inequality measured broadly; however, I uncover a positive relationship between trade and income inequality between low- and high-skill workers.