This paper quantifies the impact of trade liberalization on wage inequality between workers of different skill levels and across age groups. I propose a model in which trade liberalization increases the demand for skill due to production share reallocation across firms and technology switching. However, unlike in the existing literature, I endogenize the skill supply by supplementing the skill-demand side of the model with an overlapping-generations model of skill acquisition. I calibrate the model to 2007 US data and simulate the economy's transition path in response to the removal of policy trade barriers. Workers have rational expectations and, therefore, must take into account the general-equilibrium effects on wages of changes in skill supply during the economy's transition. I find that the aggregate gains from trade liberalization, defined as the increase in discounted real earnings relative to their pre-liberalization level, are 5.9%. However, these gains are not distributed evenly among workers. For those alive at the time of implementation of the new trade policy, the oldest educated workers. Discounted real lifetime earnings increase by 9.9%, while the oldest uneducated workers. discounted real lifetime earnings increase by only 1.5%. On the one hand, ignoring the economy's transition leads to an understatement of trade-induced inequality as this fails to account for transitory inequality. On the other hand, ignoring the endogeneity of the skill supply leads to an over-statement of trade-induced inequality as this fails to account for the equalizing effect of the endogenous skill-supply adjustment.

http://portal.idc.ac.il/en/schools/economics/about/Pages/seminars.aspx