



Economics Seminars

Thursday 20 February 2025 at 12:00

Aula Magna Edificio Baffi

Facoltà di Scienze Economiche Giuridiche e Politiche - Viale Sant'Ignazio 74

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Labour market monopsony power and the dynamic gains to openness reforms

Abstract. We quantify the impact of trade and FDI liberalisation episodes within a dynamic general equilibrium framework with firm heterogeneity and monopsonistic labour markets. Firms make standard extensive margin investment choices into exporting and multinational statuses. The labour market features firm-level upward-sloping supply curves, wage-setting power and love of variety in employment. These features interact with roundabout production and the variable-fixed cost tradeoff of outward activity. We calibrate the model to U.S. micro data and study the effect of reductions in tariffs and outward FDI taxes, examining steady state and transitional effects. Compared with a standard model with perfectly elastic firm-level labour supply, we find that the model where firms face upward-sloping labour supply curves gives substantially different quantitative predictions and transition dynamics; for instance, it yields welfare gains that are over five times larger after bilateral trade liberalisation. Decomposition exercises show that substantial differences remain, even when shutting-down combinations of features of the monopsony environment.