This homework is due next week on Monday 9/20/2004. The objective is to help you prepare for class discussion. **Only one question needs to be turned in (question 2).** I encourage you to prepare written answers in bullet points. Highlighting the relevant parts of the paper and trying to read from them during the class discussion is not conducive for effective participation. Well-structured answers that can be presented in a swift fashion will immensely add to the class atmosphere. Please keep this mind. Your cooperation is greatly appreciated and will be rewarded! Thanks.

**Outsourcing and Labor**

1. **Feenstra, Robert C., 1998.**“Integration of Trade and Disintegration of Production in the Global Economy.” *Journal of Economic Perspectives* Volume 12, Number 4, 31-50 (available at www.jstor.org)

   1. According to figures in Feenstra, the current ratios of trade to GDP are not dramatically different from the ones observed at the turn of the century. Based on this observation can we say that the structure of international trade has not changed much within the past century?

   2. According to Feenstra what is a more general definition of outsourcing?

   3. Does outsourcing take place within multinational firms or outside of multinational firms? Give examples.

   4. Explain the following statement of Feenstra “international outsourcing has a qualitatively similar effect on reducing the demand for unskilled relative to skilled labor as does skill-biased technological change”.

   5. Feenstra argues that trade and technology can be complementary in terms of affecting employment. Explain.

   6. What are the analytical models by which outsourcing can impact wage inequality? Explain their mechanisms.

   7. Identifying the cause of the impoverishment of unskilled labor is important to undertake the optimal policy action. Should workers hurt by trade be compensated? If so, what should be the mechanisms? What are the potential problems with each mechanisms? Should would workers hurt by technological change be compensated? If so, how and what are the pitfalls?

2. **(8 points)** The answer to this question is to be typed and turned in. Read the paper by Feenstra (1998, JEP). Propose two questions (essay type as above) that complement the above set of questions. The objective is to help the reader notice the important arguments of the paper. You do not need to provide the answer but you do need to know the answer. For each question also explain why your question is non-trivial and why it requires some thinking. This should be no more than a paragraph. Failure to include this explanation will result in a 2 point deduction for each question.

1. What are the definitions of \( S_M \), \( S_O \) and \( S_N \)? What are the trends in the growth rates of these indicators (see Table 1)?

2. In the regression table (Table 2) what are the LHS variables? What are the RHS variables? Can you explain the economics behind the RHS variables?

3. Why are the periods 1972-1979 and 1979-1990 chosen for the regression equation?

4. Why have Feenstra and Hanson run two sets of regressions? One with \( S_M \) and one with \( S_O \)?

5. Show step by step how they conclude that “outsourcing can account for 30.9 percent of the increase in the nonproduction wage share that occurred in the 1980s” (page 243 last paragraph).

For a recent and extensive overview of the academic literature on outsourcing see: *Feenstra, Robert C, and Hanson Gordon H. (2001), “Global Production Sharing and Rising Inequality: A Survey of Trade and Wages”, NBER Working Paper #8372, available through [www.nber.org](http://www.nber.org) need to be connected via Union. It is a long article, so you may want to print two pages per sheet)*