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Information and Globalization: Wage Co-Movements, Labor Demand Elasticity, and Conventional Trade Liberalization

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We model home country familiarity with business opportunities in a foreign country as a parameter in a matching process between domestic and foreign firms. We show that as familiarity increases the effect of relative national labor supplies on relative national wages declines, the elasticity of domestic labor demand increases, and the extent of pass-through' of trade tax changes to home wages increases. Since the volume of trade is increasing in familiarity, trade liberalization has a greater impact on wages when the initial volume of trade is greater, all else equal. As familiarity becomes complete, the results of the 2 x 2 Heckscher-Ohlin-Samuelson model are obtained: relative national wages are fixed by trade taxes independent of relative national labor supplies, domestic labor demand is infinitely elastic, and pass-through of tax changes to wages is complete' in the sense that it is determined entirely by production technology and no arbitrage opportunities remain.



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