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Työn nimi-Arbetets titel-Title Economic Integration and the Elasticities of Labour Demand: Evidence from Finland			
Oppiaine-Läroämne-Subject Economics			
Työn laji-Arbetets art-Level Licentiate thesis		Aika-Datum-Month and year 2003-05-28	Sivumäärä-Sidantal-Number of pages 81
Tiivistelmä-Referat-Abstract <p>This study analyzes the effects of the economic integration on the elasticities of labour demand. We present a linear model of intra-industry trade considering how product market integration affects labour demand. For traded goods, there is firm in each country producing with two factors of production, labour and capital, and non-traded goods are produced only with labour. In a Cournot-Nash equilibrium, we show that the various channels of integration have different effects on labour demand. A decrease in trade barriers tends to increase labour demand. However, if product market integration gives rise to an increase in the number of traded goods, we can expect labour demand to decrease. The reason behind these counteracting results is that taking better advantage of economies of scale firms expand production despite lower price-cost margins, while firms face an increase in the degree of competition in goods markets. In a non-linear model, the purpose is to analyze how economic integration changes in theory the labour-demand elasticity with own price. We suppose that, in an open economy, industries produce goods with capital and labour. We derive two different effects of an increase in the degree of integration, a scale effect and a substitution effect, on the labour-demand elasticity. If integration gives rise to an increase in substitutability, we can expect labour demand to become more elastic. We show also that international trade increases the elasticity of labour demand by increasing the elasticity of product demand. Then, integration makes labour demand more elastic either by making output markets more competitive or by making domestic labour more substitutable with foreign factors. We present a two-stage estimation model in which the aim is to investigate empirical whether integration within European Union has changed the labour-demand elasticities with own price in Finland using data from the manufacturing sector from 1975 to 1999. The more elastic labour demand is, the more sensitive employment in consequence of the change of labour costs changes. We find that the labour demand became more elastic over process of integration in manufacturing overall and in all sectors by using instrumental variables estimation, and by using ordinary least squares in manufacturing overall and in the majority of the sectors. We find also that the effects of the demand shocks on labour demand have become greater in all sectors except one. Determining European integration's effect on the labour-demand elasticities, our second stage results provide some support for the hypothesis that integration has contributed to increase in labour-demand elasticities. The majority of the integration indicators have the predicted effect on the elasticities for manufacturing overall and for the majority of the sectors. The results provide also some evidence that the integration forces changing labour substitutability by making labour more easily substituted for foreign factors of production.</p>			
Avainsanat-Nyckelord-Keywords economic integration labour-demand elasticity scale effect substitution effect			
Säilytyspaikka-Förvaringsställe-Where deposited			
Muita tietoja-Övriga uppgifter-Additional information			