

# A Simple Model of Competition Policies, Trade, and the Skill Premium

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## Abstract

This paper develops a simple, general equilibrium model in which competition policies—both entry and antitrust policies—can change the skill premium for wages. The model shows that under variety-skill complementarity, entry deregulation that reduces the fixed costs of entry increases the skill premium by increasing the number of firms and decreasing firm size. However, under variety-skill complementarity, an antitrust policy that reduces the size of cartels decreases the skill premium by decreasing the number of firms and increasing firm size. We also extend the model to a two-country model. The extended model shows that through trade, competition policies can have cross-country effects on the skill premium in multiple ways.

**Keywords:** Entry policy, Antitrust policy, Firm numbers, Firm size, Skill premium, Variety-skill complementarity, Trade

**JEL Classifications:** F12, F16, J31, L13, L41, L51

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