

Communication Network, Offshoring Costs, Factor Accumulation and Offshoring

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Abstract

This paper develops a monopolistic competition model of offshoring that capture the role of communication network and offshoring costs for a small-developed country. I study the comparative statics of the improvement in communication network, falling in offshoring costs and skilled-bias endowments accumulation on a marginal task, unskilled labor wages, outputs per firm, numbers of firm, price, aggregate outputs, price index and domestic welfare. The results are found that the improvement in communication network and skilled-bias endowment accumulation increase the marginal task, relative unskilled labor wages, outputs per firm, numbers of firm, price, aggregate outputs, price index and domestic welfare but the skilled-bias endowment accumulation may decrease numbers of firm if the skilled-labor endowment is at sufficiently low. On the other hand, the falling in offshoring costs increases the marginal task, relative unskilled labor wages and domestic welfare but decrease outputs per firm, numbers of firm, price, aggregate outputs, price index. However, the aggregate outputs are still unchanged.

Keywords : offshoring, communication networks, offshoring costs, factor accumulation, monopolistic competition

JEL classification : F12, F21, F23, D43

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