Trade, Internal Migration, and Human Capital: Who Gains from India’s IT Boom?

RÉSUMÉ

How do trade shocks affect welfare and inequality when human capital is endogenous? Using an external IT demand shock and detailed internal migration data from India, I first document that both IT employment and engineering enrollment responded to the rise in IT exports, with IT employment responding more when nearby regions have higher college age population. I then develop a quantitative spatial equilibrium model featuring two new channels: higher education choice and differential costs of migrating for college and work. Using the framework, I quantify the aggregate and distributional effects of the IT boom, and perform counterfactuals. Without endogenous education, estimated aggregate welfare gain from the export shock would have been half and regional inequality about a third higher. Reducing barriers to mobility for education, such as reducing in-state quotas for students at higher education institutes, would substantially reduce inequality in the gains from the IT boom across districts.

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