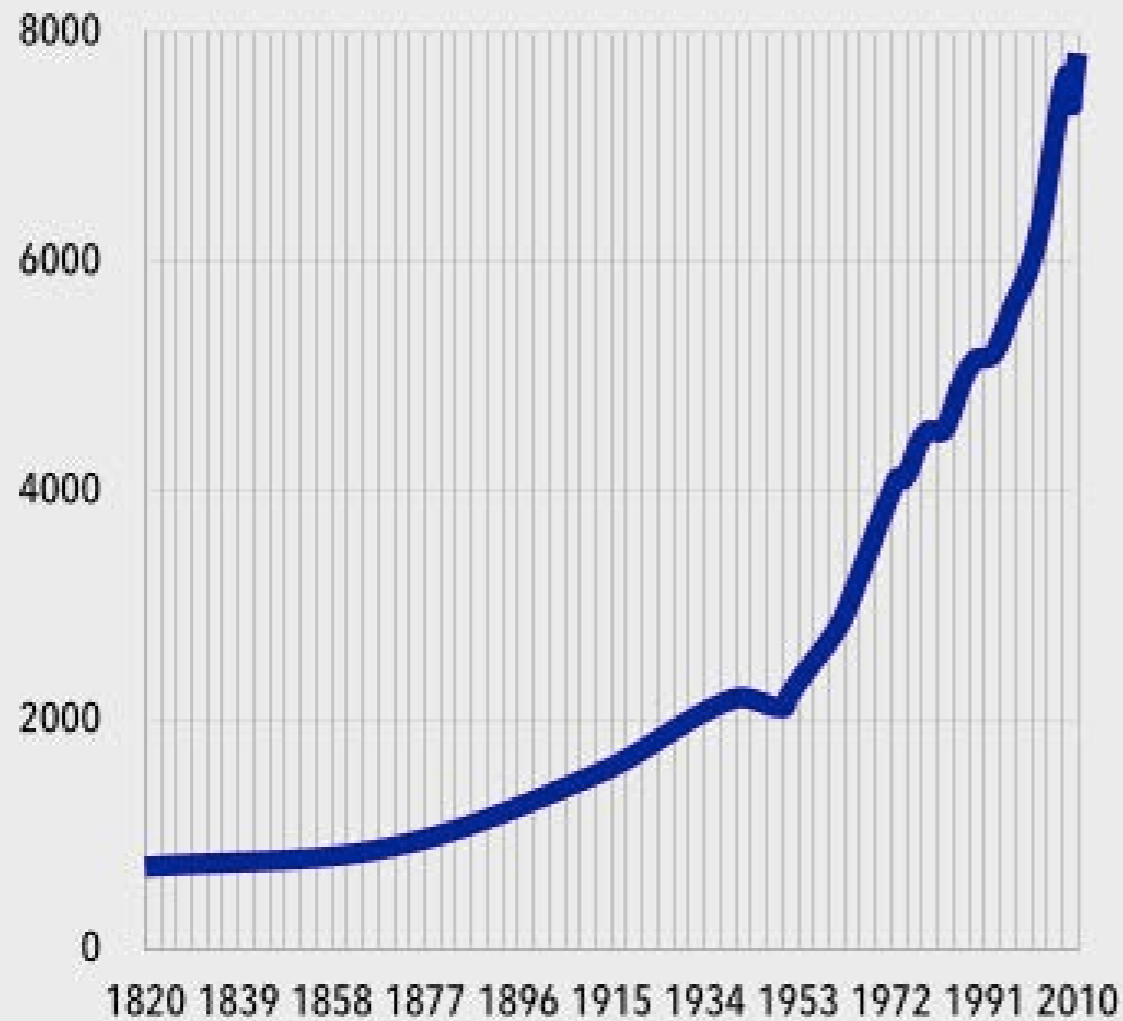


World GDP per head (1990\$)



Source: The Maddison database

## Industry-level effects

ECON 101

Effects on rent-seeking and labour hoarding

Efficiency-wage effects

## Economy-wide effects

Income effects

Labour market effects

Effects on capital markets and investment

Trade and specialization effects

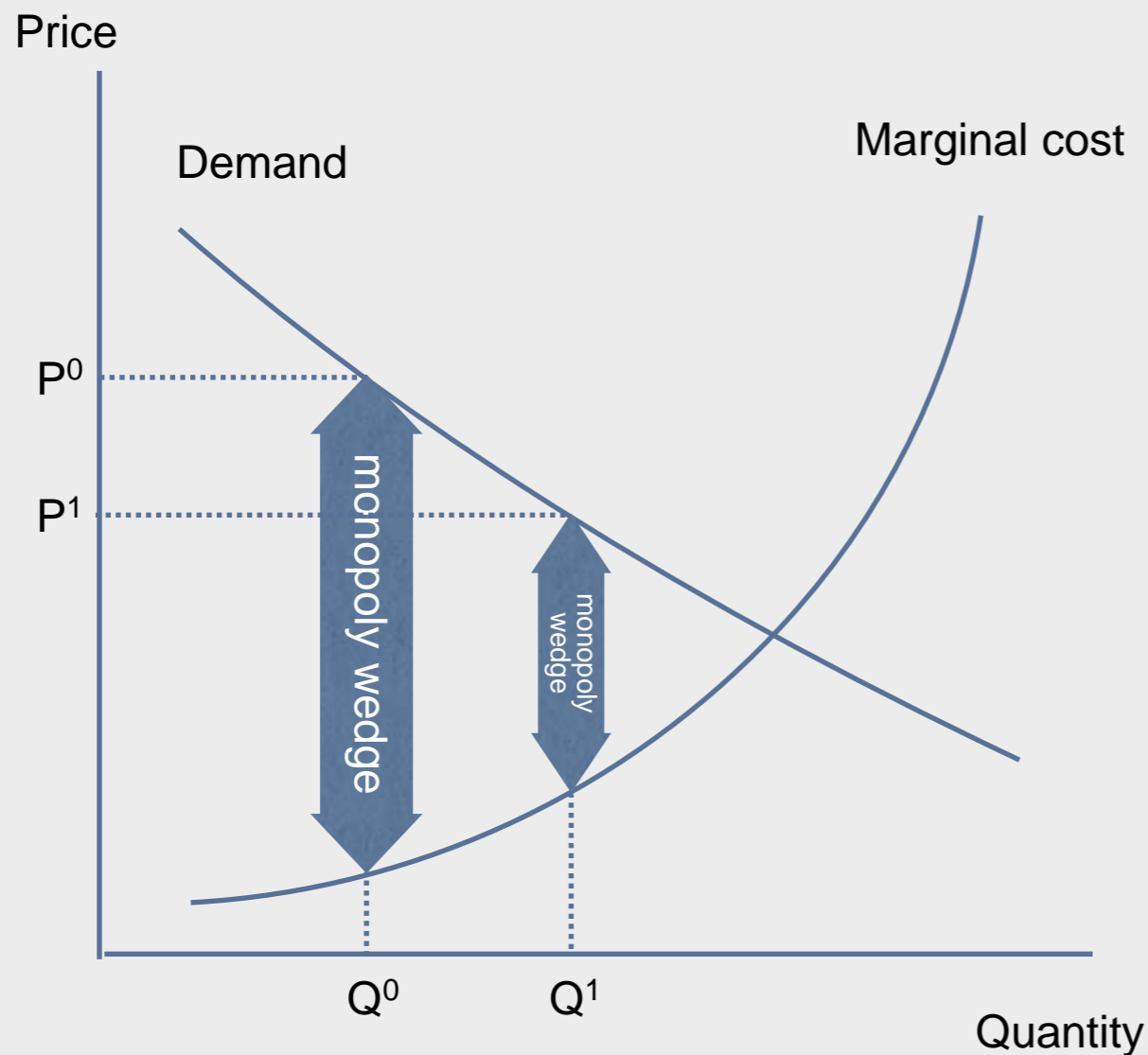
## Conclusions

NHH

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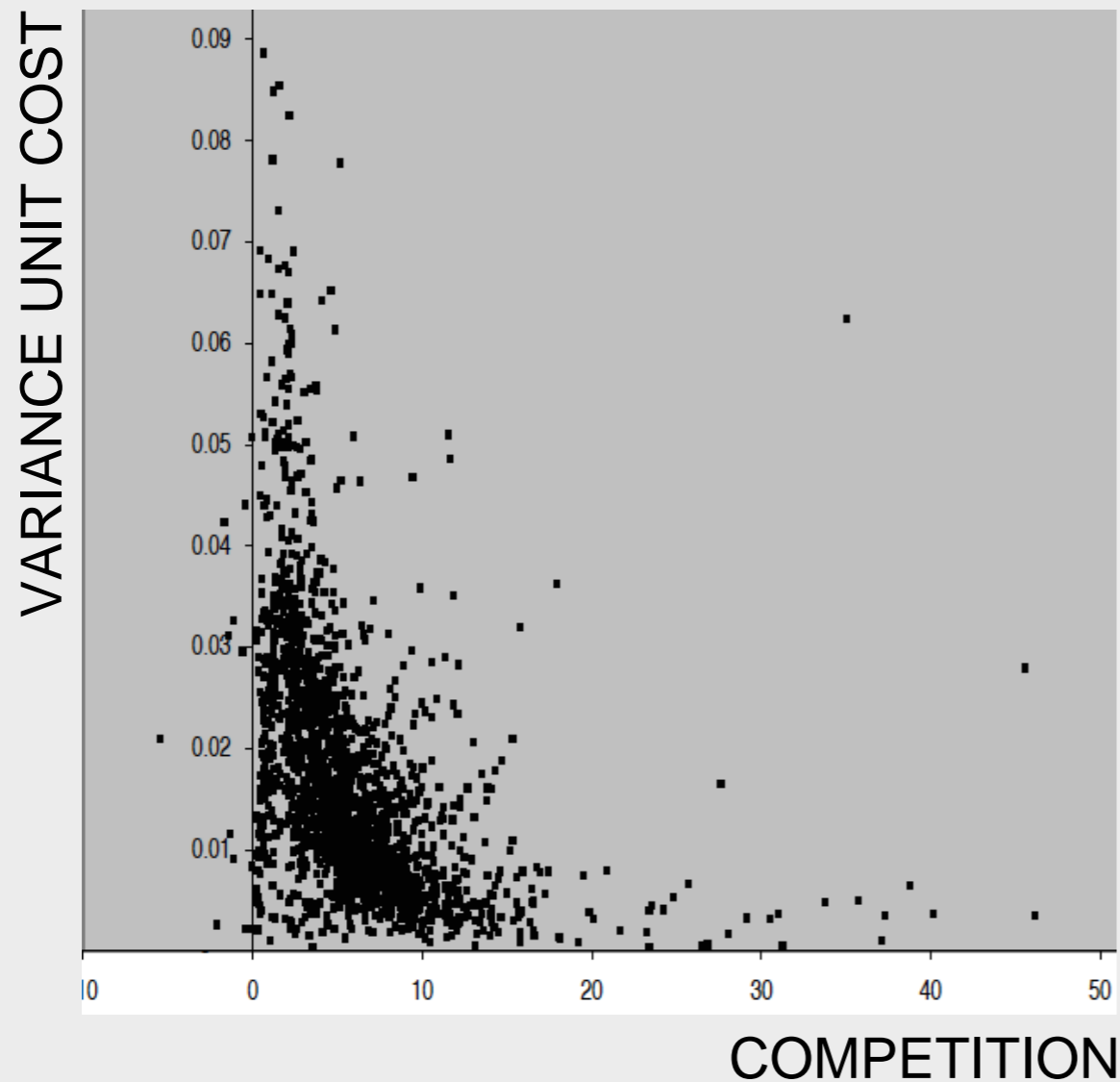


# Competition and (productive) employment



Increased competition  
reduces monopoly power and  
with it the wedge between price  
and marginal cost

As a result, the quantity  
produced and sold increases —  
and with it, both employment  
and investment

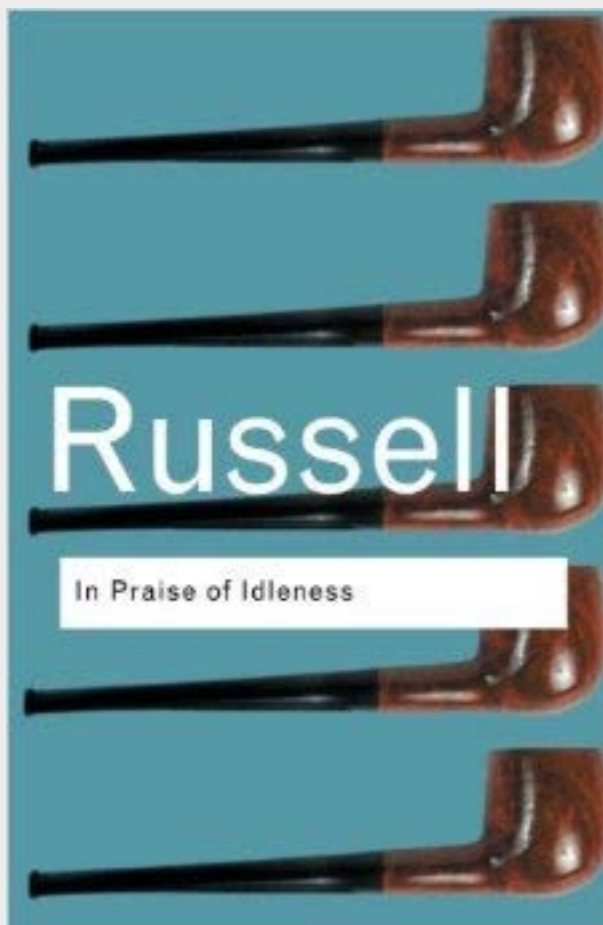


Source: Brouwer og Wiel (2010)

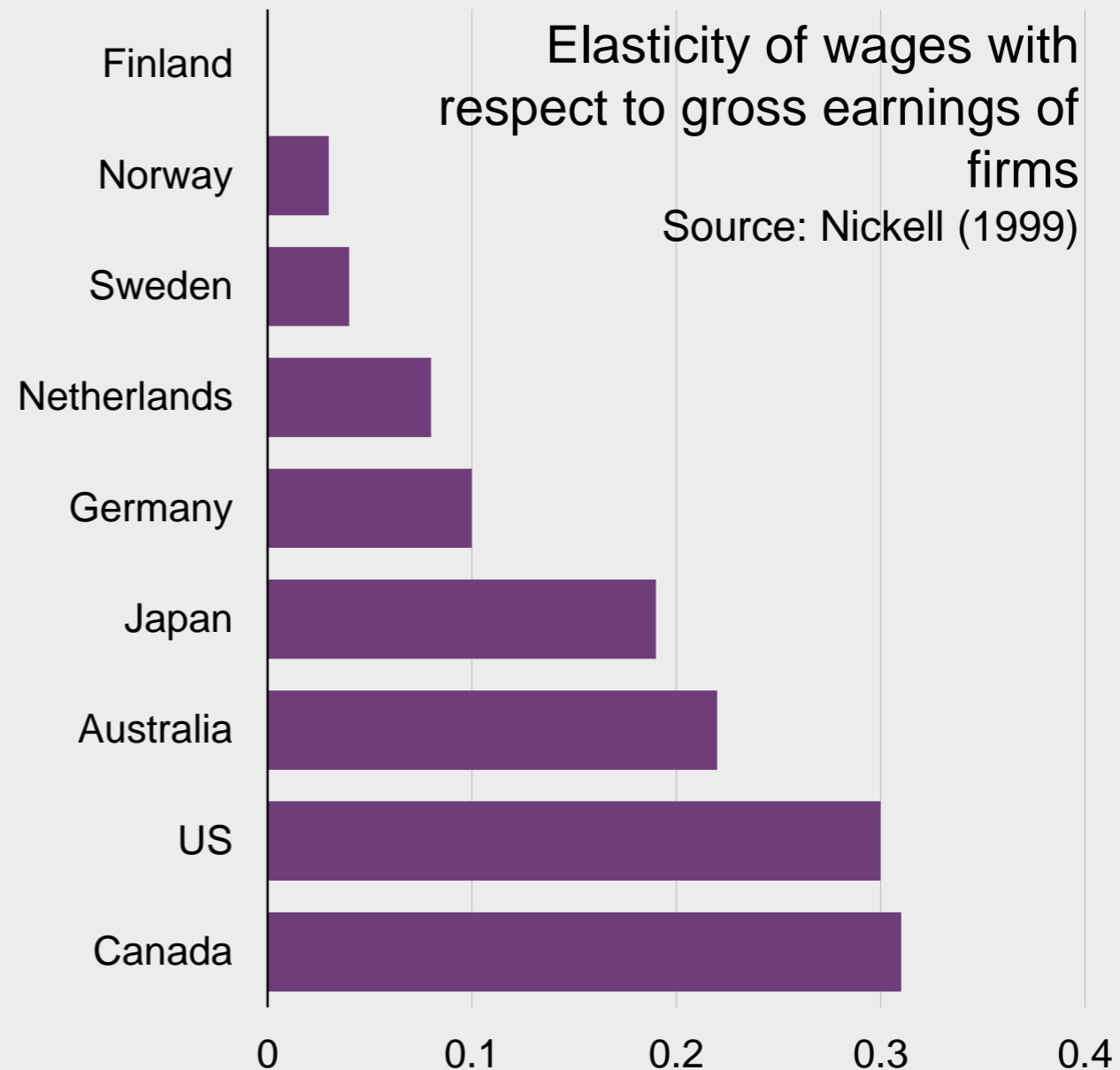
Low-cost firms expand  
 High-cost firms contract  
 The net effect is increased  
 production

... but not necessarily increased  
 employment

... although definitely more  
 productive employment



*The best of all  
monopoly profits is a  
quiet life*  
Sir John Hicks



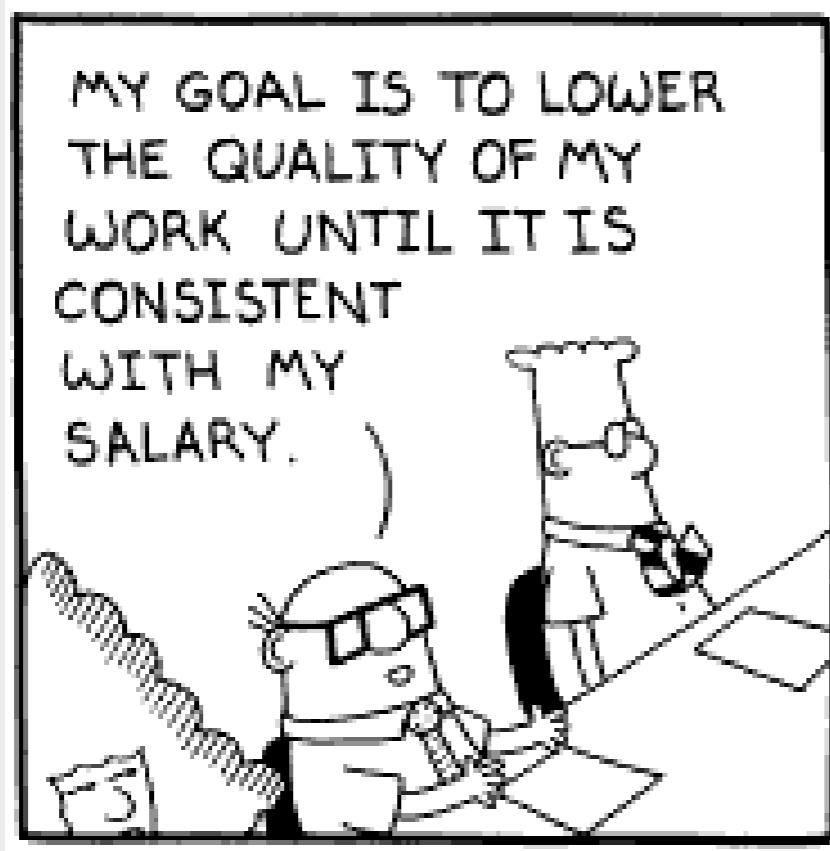
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# Industry-level effects: Labour hoarding





Competition increases labour turnover, making jobs more uncertain. This could have two effects on the industry wage level:

1. Firms might have to pay a higher premium to attract good workers
2. Job uncertainty could discipline workers, reducing the need for an efficiency-wage premium to ensure effort

## Productivity growth and employment growth, Norwegian industries, 1990-2010





Two questions:

1. Does competition in product markets foster employment?

Perhaps - and perhaps not; that depends....

2. Does competition in product markets affect wage formation in ways that foster employment?

Yes

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29 Oct 2015



Economy-wide effects: Labour-markets

Two effects:

1. Competition makes the economy more responsive to external shocks

which could be good or bad for employment, depending on the shock; but which will always be good for the allocation of resources

2. Competition leads to sharper specialization and fuller exploitation of comparative advantage

which is bad news for employment in industries threatened by international competition and good news for employment in internationally competitive industries

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Economy-wide effects: Trade and  
specialization



Competition does not necessarily create jobs, but it creates the necessary basis for more (and more productive) jobs:

1. It leads to a more efficient allocation of resources
2. It makes the economy more responsive to external shocks and more flexible in that response
3. It makes the economy more robust to international competition

But:

Inherent in these effects are distributional consequences which give us even greater reason than before to take Piketty and Stiglitz seriously