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**LABOR MARKET INTEGRATION AND MIGRATION:
IMPACTS ON SKILL FORMATION
AND THE WAGE STRUCTURE**

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Abstract

We analyze the impacts of labor market integration and migration on skill formation, wage structures, and per capita GDP of host and source countries. To do so, we propose a model in which heterogeneous agents invest in the acquisition of skills, and in which final good production exhibits increasing returns to scale in the range of available skills. Labor market integration, by allowing for migration in response to wage differentials, changes the wage structures and, therefore, the incentives to become skilled in both host and source countries.

We show that our model can largely replicate the empirical evidence concerning international migration, the widening international income dispersion, the narrowing national income dispersion, and the divergence in the rates of skill formation in host and source countries.

Keywords: labor market integration, migration, skill heterogeneity, skill formation, income inequalities.

JEL Classification: F22, J24, J31, J61.

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