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# WIRTSCHAFTSTHEORETISCHES FORSCHUNGSSEMINAR

## RESEARCH SEMINAR IN ECONOMIC THEORY

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**April 29, 2010**

**University of Vienna**

1010 Wien, Dr. Karl Lueger-Ring 1

“Elise Richter-Saal”

(from the main entrance go left and then straight all the staircases up)

**4:00pm**

**Miklós KOREN,**

Central European University, Hungary:

***“Machines and machinists:  
The effect of imported capital on the wages of Hungarian machine operators”***

Abstract printed on the next page

**5:30pm**

**Alejandro CUNAT,**

University of Vienna:

***“Relative Factor Endowments and International Portfolio Choice”***

Abstract printed on the next page

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DOWNLOAD SITE FOR PAPERS (IF AVAILABLE) AND SEMINAR SCHEDULE

<http://www.univie.ac.at/vwl/EconomicTheory.html>

NOTE: Participation of advanced students in this seminar is highly recommended.

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**Miklós KOREN,**

Central European University, Hungary:

***“Machines and machinists:***

***The effect of imported capital on the wages of Hungarian machine operators”***

This paper estimates the effect of capital imports on the wages of a large, representative sample of Hungarian machine operators. Using linked employer-employee data and detailed product- and firm-level import data, we match the precise occupation description of each worker to the equipment imported by their employers. We find that machine operators working on imported machines earn 16 percent more than those working on domestic machines. Estimating a structural assignment model of heterogeneous workers and machines, we conclude that about one third of this wage gap is due to the higher returns to skill on imported machines, and two thirds are due to the higher skill of imported machine operators. Our structural estimates also suggest that imported machines contributed substantially to the increase in wage inequality in Hungary. Our results highlight a novel mechanism of skill-biased technical change.

with Márton Csillag (KU Leuven).

**Alejandro CUNAT,**

University of Vienna:

***“Relative Factor Endowments and International Portfolio Choice”***

This paper presents a model of international portfolio choice based on cross-country differences in relative factor abundance. Countries have varying degrees of similarity in their factor endowment ratios, and are subject to aggregate productivity shocks. Risk averse consumers can insure against these shocks by investing their wealth at home and abroad. In a many-good setup, the change in factor prices after a positive shock in a particular country provides insurance to countries that have dissimilar factor endowment ratios, but is bad news for countries with similar factor endowment ratios, since their incomes will worsen. Therefore countries with similar relative factor endowments have a stronger incentive to invest in one another for insurance purposes than countries with dissimilar endowments. The importance of this effect obviously depends on the size of countries. Empirical evidence linking bilateral international equity investment positions to a proxy for relative factor endowments supports our theory: the similarity of host and source countries in their relative capital-labor ratios has a positive effect on the source country's investment position in the host country. The effect of similarity is enhanced by the size of host countries as predicted by the theory.

with Christian Fons-Rosen (London School of Economics, CEP).

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