Product Cycle, Growth and Wage Inequality in a Closed Economy

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The paper studies the role of the `product cycle' and endogenous technological growth on the distribution of income in a closed economy. Unlike traditional international trade literatures, production of standardized goods does not move to developing countries. Instead, the standardization of the production frees up skilled workers tied in the production of existing goods. The freed skilled workers contribute to endogenous growth and contribute to the creation of new products. Over time, technological innovation itself requires fewer resources which implies an increasing number of newly developed goods over any given interval of time. The production of newly develop products are skill intensive. Given a fixed ratio of skilled and unskilled workers in the economy, this leads to increased wage inequality. The paper shows that product innovation alone can influence the distribution of wages.