

**FDI, Skill-Specific Unemployment, and Institutional Spillover Effects (MS#664).
RESPONSE TO REFEREE 1**

Thank you very much for the numerous excellent suggestions, which have helped to improve the paper. As you will see from the revised paper and the attached responses to your concerns, I have addressed most of the comments on the previous draft.

One of your main concern was the empirical relevancy of skill-specific labor market institutions. Following the lines proposed by the invited reader, more examples for labor market institutions that can have skill-specific effects on workers are briefly discussed in the text. Examples include minimum wages, unions that are stronger in more low-skill intensive industries due to a higher number of union members and others. I also improved the search and matching framework by distinguishing between the flow value of being unemployed and unemployment benefits in line with Pissarides (2000). The German labor market reform (Hartz IV) for instance affected all workers' replacement rate and was thus not skill-specific. Nevertheless, a reduction in unemployment benefits may have different effects on different type of workers through their relative importance. High-killed may be less concerned about job losses compared to low skilled, which may also result in skill-biased effects of institutions even through they are not skill-specific.

The description of the labor market is also rewritten and the derivation of the standard Pissarides (2000) model moved back into the body of the paper. The bargaining power β was indeed undefined and δ in the Beveridge curve was - by mistake - δ and not λ . The latter is already defined in the text.

The introduction is completely rewritten and major parts of the paper are also new. The focus of the paper shifted away from foreign direct investment towards the effects of institutional reforms on global competitiveness. That is also the reason why the title changed to "Skill-biased labor market reforms and international competitiveness". The role of FDI was certainly stressed too much in the introduction and in the title.

Most of the minor points raised in your report are fixed.

I hope you like the revision.

Best regards,

Hans-Joerg Schmerer

References

- [1] PISSARIDES, C.A. (2000), Equilibrium Unemployment Theory, 2nd edition, Cambridge, Mass: MIT Press.