**Abstract**

The thesis consists of three separate essays about wage inequality in industrialized countries. In the first essay, it is shown that an increased supply of high-skill workers can increase the wage rate and increase the relative wage of high-skill workers. In the second essay, the impact of various market imperfections on the skill premium is investigated. In the third essay contracting out and outsourcing is studied and its impact on wages for high-skill and low-skill workers is analyzed.

The first essay presents a new theory explaining increased wage inequality by augmenting a general equilibrium model with occupational choice and risk. By combining an endogenous growth model with occupational choice it is shown that wage inequality, measured by the average wage of high-skill workers divided by the average wage of low-skill workers, can increase or decrease due to an increased supply of high-skill workers.

The second essay investigates, theoretically, the relationship between various market imperfections and the skill premium. As opposed to other models relating market imperfections to wage inequality, the model in this paper assumes perfectly competitive labor markets but distorted product and financial markets. The paper predicts that the skill premium is positively correlated with consumer preference for variety, because preference for variety leads to greater market power and thereby higher profits. In addition, shorter product cycles increase the skill premium.

The third essay investigates the interaction between demand uncertainty and non-competitive labor markets where firm owners have the option to shut down and relocate. Workers cannot find new jobs instantly and therefore accept wage reductions to avoid unemployment, if firm owners credibly threaten to shut down.

The analysis shows that the expected wage rate is a mix of a competitive wage rate and a bargained wage rate and that this lowers the skill premium. Further, the option of firms to shut down and relocate increases the average size of firms. The analysis also shows that outsourcing or contracting out is more likely if demand is more uncertain, if market power is smaller, and if the markets for intermediate goods are more competitive. Fragmentation increases the skill premium because it leads to more homogenous firms, with respect to workers' skills. With more homogenous firms, low-skill workers cannot compensate their inferior productivity in wage bargains with high-skill workers.

**Keywords:** Wage Inequality, Skill Premium, Human Capital, Occupational Choice, Cooperatives, Contracting Out, Outsourcing, Fragmentation, Technological Change, Market Power, Monopolistic Competition, Innovation, Risk, and Uncertainty.
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