

**ECONOMIC INTEGRATION AND THE ELASTICITIES OF LABOUR  
DEMAND: ECONOMETRIC EVIDENCE FROM FINLAND**

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By using theoretical model and empirical analysis, we investigate the effects of the economic integration on the elasticity of labour demand with own price. In a general theoretical model of intra-industry trade, we analyze how economic integration changes the labour-demand elasticity. We show that intensified trade competition increases the labour-demand elasticity, whereas better advantage of economies of scale decreases the elasticity of labour demand by decreasing elasticity of substitution between differentiated products. If integration gives rise to an increase in input substitutability and/or out-sourcing activities, labour demand will become more elastic. We test the idea whether European integration has changed the labour demand elasticities in Finland using data from the manufacturing sector from 1975 to 2001.