The School of Economics Seminars Presents

Professor Jeffrey Bergstrand, University of Notre Dame, USA

Bio:

Jeffrey Bergstrand is a Professor in the Department of Finance in the Mendoza College of Business at the University of Notre Dame and a Concurrent Professor in the Department of Economics at Notre Dame. His current research investigates the impact and determinants (economic and political) of economic integration agreements. His work also explores the theoretical and empirical determinants of foreign direct investment flows and bilateral investment treaties. He has published widely in highly respected academic journals including the Review of Economics and Statistics, Economic Journal, Journal of International Economics and American Economic Review.

Title:

The Gains from International Trade with Increasing Marginal Costs
By Jeffrey H. Bergstrand, Stephen R. Cray and Antoine Gervais

Abstract:

A wide class of models satisfying a certain set of assumptions including constant marginal costs of production (and some macro restrictions) yields a sufficient statistic for measurement of welfare gains from trade: a power function of the domestic trade-share change and the trade elasticity with respect to ad valorem variable trade costs. In reality, the brunt of empirical evidence confirms increasing marginal costs. First, we extend the Melitz model of international trade (with a Pareto distribution) to allow variable marginal costs. With increasing marginal costs, the extensive (intensive) margin elasticity of variable trade costs becomes relatively more (less) important; the trade elasticity with respect to variable-trade-cost changes remains the Pareto shape parameter, but the trade elasticity with respect to export-fixed-cost changes is magnified; and - most importantly - the welfare effect of a given change in the domestic trade share is reduced by a factor related to the degree of increasing marginal costs. Second, we provide strong empirical evidence of increasing marginal costs using a novel econometric strategy that extends Feenstra (1994) and others by accounting explicitly for firm heterogeneity. Third, we use a calibrated version of the model to illustrate numerically the quantitative impact of various degrees of increasing marginal costs on the welfare gains from a trade-policy liberalization. The main point is that there are now three important empirically motivated parameters in the Melitz model likely determining the general equilibrium effects of trade-cost changes on trade flows and economic welfare: the elasticity of substitution in consumption, the shape parameter of the productivity distribution, and the elasticity of marginal costs to output.

Monday, 14 October 2019

13H00 - 14H00

Seminar Room

(4th Floor School of Economics, Light lunch will be served at 12h30)