

Information & Trade

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- ▶ Ph.D. 2008 University of Minnesota
 - Dissertation: *State Export Behavior and Policy*
 - Advisors: Sam Kortum and Tom Holmes
- ▶ Primary research interest in regional development through exportation
 - Informational barriers to trade, costs to begin to export
 - Export promotion policy
- ▶ Specific research projects
 - Account for pattern of state exports
 - Location of state overseas offices & governor missions
 - Account for the clustering of exporters by destination of shipments



Basic Trade Theory

- ▶ Comparative advantage
 - Ricardo: technology differences
 - Heckscher–Ohlin: resource differences
- ▶ Economies of scale
Paul Krugman nobel prize
- ▶ Predictions
 - Comparative advantage:
different countries trade different things
 - Economies of scale:
similar countries trade different things
- ▶ Data: Similar countries trade similar goods back-and-forth
Ex: U.S.–Canada; U.K.–Germany



Fix & A New Challenge

- ▶ Accounted for by atheoretic “gravity equation”
- ▶ Use of Computable General Equilibrium models
- ▶ Role of tariffs?
Hinders trade between similar countries on similar goods
- ▶ 1990: What **will** happen with NAFTA?
Trade of goods already being traded will increase
- ▶ 2010: What **did** happen with NAFTA?
Trade of goods already traded roughly constant
Trade of previously untraded goods increases a lot
- ▶ Cannot be accounted for by “gravity” or CGE



Improvements to Theory

- ▶ Firm-level models
 - Do countries trade with each other?
 - What is a country?
- ▶ Features
 - Monopolistic competition: Economies of scale
 - Heterogenous: Firms differ by productivity
 - Fixed and variable costs to export
- ▶ Variable costs
 - Transportation, tariffs, what else?
 - Affects quantity of already exported goods: intensive margin
- ▶ Fixed costs
 - Cost to enter market: examples?
 - Affects the number of firms that export: extensive margin



Cost & Information

- ▶ Data
 - Only 15% of firms export anywhere, less to any specific country
 - This is much less than we expect based on the known costs of exporting (\approx \$1 million)
- ▶ What is causing the missing trade? Missing exporters?
- ▶ Unobserved informational barriers to trade?
 - What are informational barriers to trade?
 - Are informational barriers fixed or variable costs?
- ▶ Why is this important to understand?
Lead to efficiency & welfare improving policy



Export Promotion

▶ Private

- Exporters cluster by destination (not industry) because of knowledge spillovers
- Firms form trade associations (often industry and not destination)

▶ Public

- Overseas offices
- Governor trade missions
- What are these policies doing?
Subsidizing the informational barriers (fixed or variable) because of public goods problem?



Summary

- ▶ Recent innovations in theoretical & empirical trade
- ▶ Many problems still to be solved
 - What is the size & nature of informational barriers to trade?
 - How can policy be designed that respects informational barriers?
 - National export initiative?

