

- Master Seminar - Heterogeneous Firms in the Global Economy

Winter 2020

Chair of International Finance

This version: August 11, 2020

Seminar Description

With the appearance of firm-level data sets in the mid-90s, researchers noticed that only a small fraction of firms - the largest and most productive ones - participate in international markets through exports. Extending the Krugman (1980) model to allow for firms with heterogeneous productivity, the seminal contribution by Melitz (2003) started an active and innovative literature in which empirical and theoretical work are strongly linked.

In this seminar, we will study applications of the Melitz (2003) model to various topics. The research we cover asks questions such as: What is the role of credit constraint in firm-level export decisions? How do firms choose between different modes of market access, such as exporting and foreign direct investment (FDI)? Does trade liberalization lead to technological upgrading in firms? What is the role of product quality in international trade flows? We will discuss these and similar questions about firms in international markets with a focus on research that combines a theoretical model with evidence from (mostly) firm-level data.

Seminar requirements

Working knowledge of calculus is required and previous contact with trade theory is highly recommended, in particular knowledge of the heterogeneous firms trade model by Melitz (2003). Good knowledge of econometrics is required. If you are unsure about meeting the requirements, do not hesitate to contact me before the introductory meeting.

Organization

The seminar will take place online. We will conduct the introductory meeting as well as all bilateral meetings and the presentations online using MS Teams. Once you are registered to the seminar, I will invite you to join the seminar's group in MS Teams.

We will discuss details of the seminar paper topics, assignment of topics as well as all further organizational issues including formal requirements of the seminar paper in the introductory meeting.

Introductory meeting (compulsory): Monday, November 2, 2020, 10-11 am

Seminar paper: Friday, November 6, 2020 - Friday, February 5, 2021

Presentations: Monday, January 4, 2021, 1.30pm to 6.30pm

Instructor: Dr. Philipp Herkenhoff, philipp.herkenhoff@uni-mainz.de

Literature

Some introductory literature...

- Bernard, A. B., J. B. Jensen, S. J. Redding and P. K. Schott (2007). “Firms in International Trade.” *Journal of Economic Perspectives* 21(3), pp. 105-130.
- Melitz, M. J. (2003). “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity.” *Econometrica* 71, pp. 1695-1725.
- Melitz, M. J. and S. J. Redding (2014). “Heterogeneous Firms and Trade” In: *Handbook of International Economics*, Vol. 4, ed. Gopinath, G., Helpman, E. and Rogoff K., Elsevier, pp. 1-54.
- Melitz, M. J. and D. Trefler (2012). “Gains from Trade when Firms Matter.” *Journal of Economic Perspectives* 26(2), pp. 91-118.

Here is a *preliminary* list of applied papers that may form the basis of a seminar paper.

- Antràs, P. and E. Helpman (2004). “Global Sourcing.” *Journal of Political Economy* 112(3), pp. 552-580.
- Arkolakis, C. (2011). “Market Penetration Costs and the New Consumers Margin in International Trade.” *Journal of Political Economy* 118(6), pp. 1151-1199.
- Atkin, D., A. Khandelwal and A. Osman (2017). “Exporting and Firm Performance: Evidence from a Randomized Experiment.” *Quarterly Journal of Economics* 132(2), pp. 551-615.
- Baldwin, R. and J. Harrigan (2011). “Zeros, Quality, and Space: Trade Theory and Trade Evidence.” *American Economic Journal: Microeconomics* 3(2), pp. 60-88.
- Bustos, P. (2011). “Trade Liberalization, Exports, and Technology Upgrading: Evidence on the Impact of MERCOSUR on Argentinian Firms.” *American Economic Review* 101, pp. 304-340.
- Chaney, T. (2008). “Distorted Gravity: The Intensive and Extensive Margins of International Trade.” *American Economic Review* 98(4), pp. 1707-1721.
- Helpman, E., M. J. Melitz and S. Yeaple (2004). “Export Versus FDI with Heterogeneous Firms.” *American Economic Review* 94, pp. 300-316.
- Kugler, M. and E. Verhoogen (2012). “Prices, Plant Size, and Product Quality.” *Review of Economic Studies* 79, pp. 307-339.
- Manova, K. (2013). “Credit Constraints, Heterogeneous Firms, and International Trade.” *Review of Economic Studies* 80, pp. 711-744.
- Manova, K., S. Wei and Z. Zhang (2015). “Firm Exports and Multinational Activity under Credit Constraints.” *Review of Economics and Statistics* 97(3), pp. 574-588.
- Melitz, M. J. and G. I. P. Ottaviano (2008). “Market Size, Trade, and Productivity.” *Review of Economic Studies* 75, pp. 295-316.
- Minetti, R. and S. Zhu (2011). “Credit Constraints and Firm Export: Microeconomic Evidence from Italy.” *Journal of International Economics* 83(2), pp. 109-125.
- Tomiura, E. (2007). “Foreign Outsourcing, Export, and FDI: A Productivity Comparison at the Firm Level.” *Journal of International Economics* 72(1), pp. 113-127.