

Discussion of
The Elasticity of Trade: Estimates and Evidence
by Ina Simonovska and Michael E. Waugh

John T. Dalton
Wake Forest University

Microeconomic Sources of Real Exchange Rate Behavior
September 2010

Big Picture: Empirical Applications of Ricardian Model

- Nice paper!
- Contributes to the Post-Eaton and Kortum (2002) surge in empirical applications of Dave's theory
- Dave:



Summary

Key Result:

- Estimate elasticity of trade θ to be 4.22
- Eaton and Kortum (2002) estimate θ to be between 7.5 and 9.5

Important since θ critical for understanding:

- Size of frictions to trade
- Welfare gains and losses to trade
- Response of trade to changes in barriers like tariffs

Summary

Analysis of estimation approach in Eaton and Kortum (2002)

New estimation approach, simulated method of moments

Applied to both Eaton and Kortum (2002) data and new data

- $\theta_{EKdata} = 3.93$
- $\theta_{SWdata} = 4.22$

which is lower than Eaton and Kortum (2002) and provides evidence for θ not varying much with development

Range of θ

Simonovska and Waugh (2010)'s θ one among many but still within range of others:

- Bernard, Eaton, Jensen, and Kortum (2003) and Eaton, Kortum, and Kramarz (2008): 3.6 to 4.8
- Donaldson (2009): 3.8 to 5.2
- Costinot, Donaldson, and Komunjer (2010): 6.53
- Ruhl (2004): 4 to 15

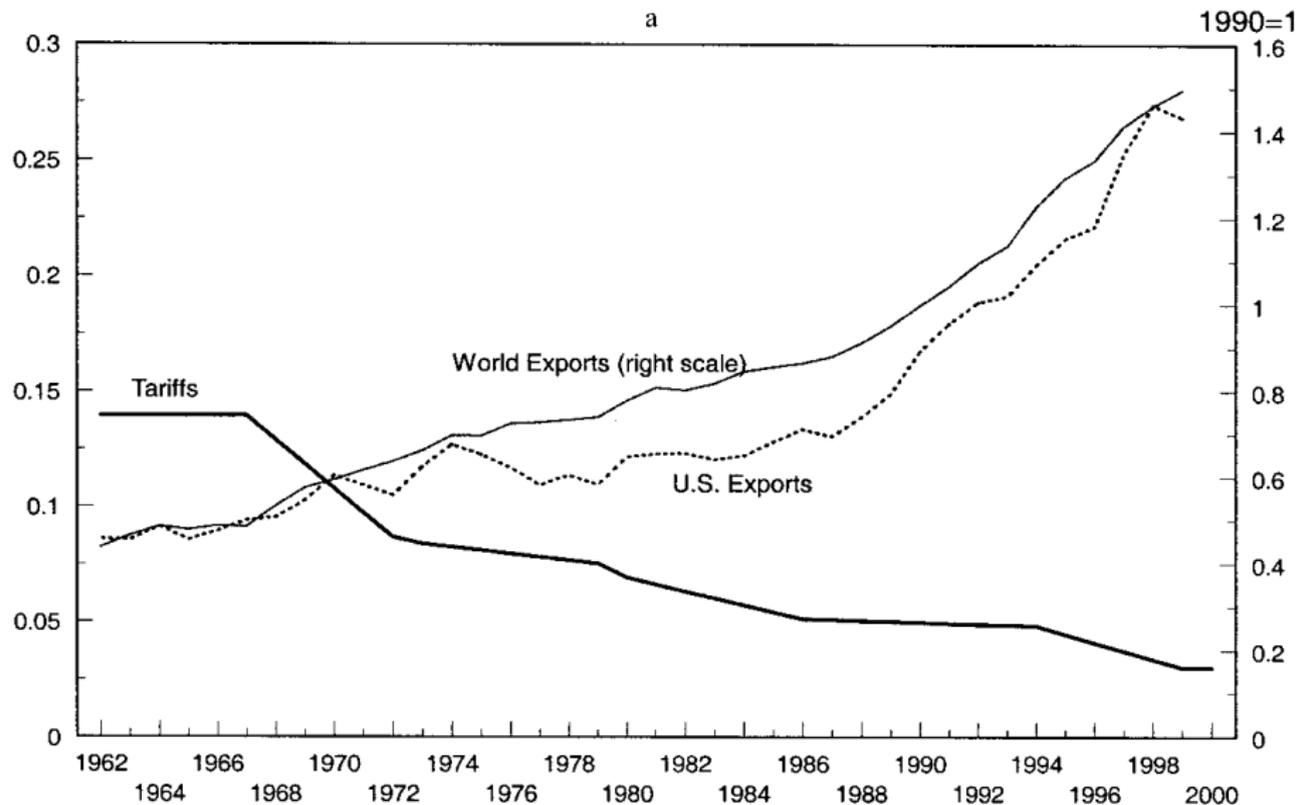
Not Completely Smitten

Two concerns:

- Price heading data
- Estimate of θ related to model

The Elasticity of Trade: Estimates and Evidence II... θ ??

Simonovska and Waugh (2010) Meets Yi (2003)



Needed: A Theory of τ

- Simonovska and Waugh (2010) reinforces need for micro-founded models capable of reconciling movements like growth in U.S. trade
- Tariffs won't do it
- Opening the black box...Time?? Alessandria, Kaboski, Midrigan (2009), Dalton (2009), Hummels (2001)