

The Bugs That Were Left

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Information on three errors that were left in Ghironi-Melitz (*QJE*, 2005):

1. The formula that we used to calibrate the Pareto distribution parameter k , which we took from Helpman-Melitz-Yeaple (*AER*, 2004), is wrong. The correct formula is $(\theta-1)/k$, and the constraint $k > \theta - 1$ makes it impossible to replicate the standard deviation of log plant sales. Given the choices of k in the literature, we felt comfortable keeping our choice after Svetlana Demidova found the error.
2. There was an error in the code for the case of international bond trading: When we wrote the code for the model with financial autarky, we substituted interest rates for expected returns in the log-linearized Euler equations for shares. We forgot we had done that when we wrote the code for the case of bond trading: Because of the adjustment costs in bond transactions, that substitution is wrong. Alberto Felettigh found that problem when he was trying to replicate our work.
3. Finally, there was an error in the code equations that defined the price index ratios necessary to convert welfare-consistent quantities into the “R” ones. For the home country, the equation in the code was:

$$-PP(t) + (1/(1-\theta)) * (NDbar/(NDbar+NXbar)) * ND(t) + (1/(1-\theta)) * (NDbar/(NDbar+NXbar)) * NXstar(t)$$

But it should be

$$-PP(t) + (1/(1-\theta)) * (NDbar/(NDbar+NXbar)) * ND(t) + (1/(1-\theta)) * (NXbar/(NDbar+NXbar)) * NXstar(t)$$

The error is in the coefficient on $NXstar(t)$ (and similarly in the coefficient on $NX(t)$ in the equation for the analogous price index ratio for the foreign country). Copy-and-paste did not help me and Marc: We copied the coefficient of $ND(t)$ (and $NDstar(t)$ in the foreign country equation) and forgot to correct Ds into Xs . Michiru Kosaka found this error when she was trying to replicate our work.

Fortunately, we think that these bugs did not affect important results in our paper.