

Heterogeneous Firms and Producer Entry in International Macroeconomics

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Syllabus

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This mini-course focuses on recent developments in the literature at the intersection of international trade and macroeconomics. It analyzes how international macroeconomic models can shed new light on long-standing and novel questions when the models include richer trade microfoundations than usually assumed in benchmark setups. We will pay special attention to the roles of producer entry and exit in domestic and export markets, and how firm heterogeneity contributes to shape aggregate outcomes.

The course will be structured in four main parts:

1. International Trade and Macroeconomic Dynamics: The Roles of Producer Entry and Selection into Markets
2. International Trade and Macroeconomic Dynamics: Different Perspectives on the Extensive Margin
3. FDI, Offshoring, and International Business Cycles with Heterogeneous Producers
4. Labor Market Frictions and the Consequences of Trade Integration

If time permits, I will mention some recent work on monetary policy in the framework developed in Part 4.

The course will draw on a selection of papers from the reading list below.

Reading List

Alessandria, G., and H. Choi (2007): "Do Sunk Costs of Exporting Matter for Net Export Dynamics?" *Quarterly Journal of Economics* 122: 289-336.

Alessandria, G., and H. Choi (2008): "The Role of Exporting and Trade for Entry over the Business Cycle," *mimeo*, Federal Reserve Bank of Philadelphia and University of Auckland.

Atkeson, A., and A. T. Burstein (2008): "Pricing to Market, Trade Costs, and International Relative Prices," *American Economic Review* 98: 1998-2031.

- Auray, S., and A. Eyquem (2009): “Endogenous Entry, International Business Cycles, and Welfare,” *mimeo*, University of Lille and University of Lyon.
- Auray, S., A. Eyquem, and J.-C. Poutineau (2008): “The Extensive Margin of Trade under Alternative Monetary Policy Regimes,” *mimeo*, University of Lille, University of Lyon, and University of Rennes.
- Bergin, P. R., R. Feenstra, and G. Hanson (2009): “Offshoring and Volatility: Evidence from Mexico's Maquiladora Industry,” *American Economic Review* 99: 1664-1671.
- Bergin, P. R., and R. Glick (2007): “Tradability, Productivity, and International Economic Integration,” *Journal of International Economics* 73: 128-151.
- Bergin, P. R., and R. Glick (2009): “Endogenous Tradability and Some Macroeconomic Implications,” *Journal of Monetary Economics* 56: 1086-1095.
- Bergin, P. R., R. Glick, and A. M. Taylor (2006): “Productivity, Tradability, and the Long-Run Price Puzzle,” *Journal of Monetary Economics* 53: 2041-2066.
- Bergin, P. R. and C.-Y. Lin (2009): “Exchange Rate Regimes and the Extensive Margin of Trade,” in Frankel, J., and C. Pissarides, eds., *NBER International Seminar on Macroeconomics 2008*, 201-227.
- Brůha, J., and J. Podpiera (2006): “Transition Economy Convergence in a Two-Country Model: Implications for Monetary Integration,” *mimeo*, Czech National Bank.
- Burstein, A., C. Kurz, and L. Tesar (2008): “Trade, Production Sharing, and the International Transmission of Business Cycles,” *Journal of Monetary Economics* 55: 775-795.
- Cacciatore, M. (2010): “International Trade and Macroeconomic Dynamics with Labor Market Frictions,” *mimeo*, HEC Montréal.
- Cacciatore, M., and F. Ghironi (in progress): “Trade Integration, Unemployment, and Monetary Cooperation,” *mimeo*, HEC Montréal and Boston College.
- Cavallari, L. (2007): “A Macroeconomic Model of Entry with Exporters and Multinationals,” *The B.E. Journal of Macroeconomics (Contributions)* 7: Article 32.
- Cavallari, L. (2008): “Macroeconomic Interdependence with Trade and Multinational Activities,” *Review of International Economics* 16.
- Contessi, S. (2006): “International Macroeconomic Dynamics, Endogenous Tradedness and FDI with Heterogeneous Firms,” *mimeo*, Federal Reserve Bank of St. Louis.
- Corsetti, G., P. Martin, and P. Pesenti (2007): “Productivity Spillovers, Terms of Trade, and the ‘Home Market Effect’,” *Journal of International Economics* 73: 99-127.
- Corsetti, G., P. Martin, and P. Pesenti (2008): “Varieties and the Transfer Problem: The Extensive Margin of Current Account Adjustment,” NBER WP 13795.

- Di Giovanni, J., A. A. Levchenko, and I. Méjean (2011): “Firms, Destinations, and Aggregate Fluctuations,” *mimeo*, International Monetary Fund, University of Michigan, and Ecole Polytechnique.
- Dornbusch, R., S. Fischer, and P. A. Samuelson (1977): “Comparative Advantage, Trade, and Payments in a Ricardian Model with a Continuum of Goods,” *American Economic Review* 67: 823-839.
- Fillat, J. L., and S. Garetto (2009): “Risk, Returns, and Multinational Production,” *mimeo*, Federal Reserve Bank of Boston and Boston University.
- Gibson, M. J., and T. A. Graciano (2009): “The Decision to Import,” *mimeo*, Washington State University.
- Ghironi, F., and M. J. Melitz (2005): “International Trade and Macroeconomic Dynamics with Heterogeneous Firms,” *Quarterly Journal of Economics* 120: 865-915.
- Ghironi, F., and M. J. Melitz (2007): “Trade Flow Dynamics with Heterogeneous Firms,” *American Economic Review (Papers and Proceedings)* 97: 356-361.
- Ghironi, F., and V. Stebunovs (2010): “The Domestic and International Effects of Interstate U.S. Banking,” NBER WP 16613.
- Gopinath, G., and B. Neiman (2011): “Trade Adjustment and Productivity in Large Crises,” *mimeo*, Harvard University and University of Chicago.
- Jin, K. (2009): “International Business Cycles with Heterogeneous Sectors,” *mimeo*, London School of Economics.
- Jin, K. (2009): “Industrial Structure and Financial Capital Flows,” *mimeo*, London School of Economics.
- Johnson, R. C. (2007): “Trade and Prices with Heterogeneous Firms,” *mimeo*, Dartmouth College.
- Ju, J., and S.-J. Wei (2006): “A Solution to Two Paradoxes of International Capital Flows,” NBER WP 12668.
- Ju, J., and S.-J. Wei (2007): “Current Account Adjustment: Some New Theory and Evidence,” NBER WP 13388.
- Ju, J., and S.-J. Wei (2009): “Current Account Adjustment in a Model with Multiple Tradable Sectors and Labor Market Rigidities,” *mimeo*, University of Oklahoma.
- Lubik, T. A., and K. N. Russ (2006): “Entry, Multinational Firms and Exchange Rate Volatility,” *mimeo*, Federal Reserve Bank of Richmond and University of California-Davis.
- Naknoi, K. (2008): “Real Exchange Rate Fluctuations, Endogenous Tradability and Exchange Rate Regimes,” *Journal of Monetary Economics* 55: 645-663.

Obstfeld, M., and K. Rogoff (2001): “The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?” in B. Bernanke and K. Rogoff (eds.), *NBER Macroeconomics Annual 2000*, pp. 339-390, Cambridge: MIT Press.

Pappada, F. (2008): “Real Adjustment of Current Account Imbalances with Firms’ Heterogeneity,” *mimeo*, Paris School of Economics.

Ramondo, N., and V. Rappoport (2007): “The Role of Multinational Production in Cross-Country Risk Sharing,” *mimeo*, University of Texas, Austin.

Rodriguez-Lopez, J. A. (2008): “Prices and Exchange Rates: A Theory of Disconnection,” *mimeo*, University of California, Irvine.

Ruhl, K. (2008): “The International Elasticity Puzzle,” *mimeo*, New York University.

Russ, K. N. (2007a): “The Endogeneity of the Exchange Rate as a Determinant of FDI: A Model of Entry and Multinational Firms,” *Journal of International Economics* 71: 344-372.

Russ, K. N. (2007b): “Exchange Rate Volatility and First-Time Entry by Multinational Firms,” NBER WP 13659.

Sbordone, A. M. (2010): “Globalization and Inflation Dynamics: The Impact of Increased Competition,” in Galí, J., and M. J. Gertler (eds.), *International Dimensions of Monetary Policy*, Chicago: University of Chicago Press.

Sim, J. W. (2006): “Hysteresis and Trade Dynamics in a Two Country General Equilibrium with Incomplete Markets,” *mimeo*, Board of Governors of the Federal Reserve System.

Zlate, A. (2010): “Offshore Production and Business Cycle Dynamics with Heterogeneous Firms,” International Finance Discussion Paper 2010-995, Board of Governors of the Federal Reserve System.