

CIFREM SEMINARS

FINANCING CONSTRAINTS, EXPORT DECISIONS, AND AGGREGATE PRODUCTIVITY

ANDREA CAGGESE
POMPEU FABRA UNIVERSITY
DEPARTMENT OF ECONOMICS

Thursday, 18 November 2010
3 PM – CIFREM seminar room
Faculty of Economics
Via Rosmini, 5 - Trento

We develop a dynamic industry model where financing frictions affect the entry decisions of new firms in the home market, as well as the riskiness of operating firms. These two factors in turn determine a joint endogenous distribution of firms across productivity, volatility and financial wealth. We show that this endogenous distribution is very important to understand both firm level export decisions and their consequences for aggregate productivity after a trade liberalization. In particular, the calibrated model predicts that: i) financing frictions reduce the likelihood of a given firm becoming an exporter but they also affect indirectly the distribution of firms. Overall, they have an ambiguous effect on the number of firms starting to export. ii) financing constraints always distort the selection into export, thus reducing the aggregate productivity gains induced by trade liberalization by 30%-50%. In the second part of the paper we verify the main predictions of the model with a rich dataset of Italian manufacturing firms for the period 1995-2003.

cifrem@economia.unitn.it (tel. 0461/282290)