Firms in a Globalised World

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1. Content and Objectives

The development and increased availability of firm-level datasets in the 1990s has added to our understanding of how firms operate. These data have shed light on a number of aspects of firm behaviour in the globalised economy, including: (i) why countries trade; (ii) the mechanisms of adjustment to trade liberalisation; (iii) the winners and losers from trade liberalisation; (iv) the characteristics of trading firms and firms investing abroad; and (v) the relationship between innovation and firms' trading status. Following these developments and findings, trade theory has been expanded to help explain the empirical regularities. This course will introduce and discuss many of these issues. The course will discuss the empirical methods used to address these topics; discuss the data sources, methodology and results from a number of studies from both developed and developing countries addressing these issues; and describe how theory has evolved in response to these findings. In particular, we will focus on the following topics:

- Firms and the Decision to Trade
    - Which firms engage in international trade and why?
    - International trade and firm performance
    - The intensive and extensive margins of international trade
    - Interactions between trade, innovation and firm-level performance
    - Firm level responses to trade liberalisation
    - Offshoring and outsourcing
    - Firms, trade and wages
- Firms and the Decision to Invest Abroad
    - Horizontal vs vertical FDI
    - Exports vs FDI
    - Spillovers from FDI
    - Impacts on host and origin countries

After taking the course, students will have an understanding of: (i) recent developments in the theory and empirics of international trade; (ii) the benefits and limits of firm-level surveys for economic analysis; and (iii) statistical methods applicable for research on firm-level data.

2. Course Organisation

GPAC2: 3 sessions of 3 hours each. Each session will consist of a lecture and a discussion. Lectures will describe the empirical and theoretical contributions to each of the topics and will address key analytical and methodological issues. The discussion will focus on gaps in

the literature and the policy implications of key empirical works. In order to ensure an informed and fertile discussion, the required readings should be studied in advance.

3. Minimum Requirements

- Prior basic knowledge in economics and/or quantitative methods would be helpful, though not necessary
- Attendance at all lectures
- Completion of required reading, participation in class discussions.

4. Selective Reading List

Firms and the Decision to Trade

Antràs, P. and E. Helpman, 2004. Global sourcing. *Journal of Political Economy*, 112(3), 552-580.

Aw, B.Y., S. Chung and M.J. Roberts, 2000. Productivity and turnover in the export market: Micro-level evidence from the Republic of Korea and Taiwan (China). *World Bank Economic Review*, 14(1), 65-90.

Bernard, A.B., J. Eaton, J.B. Jensen and S. Kortum, 2003. Plants and productivity in international trade. *American Economic Review*, 93(4), 1268-1290.

Bernard A. and J. B. Jensen, 2004. Why some firms export. *Review of Economics and Statistics*, 86(2), 561-569.

Bernard, A.B. and J.B. Jensen, 1999. Exceptional exporter performance: Cause, effect, or both? *Journal of International Economics*, 47(1), 1-25.

Bernard, A.B., Jensen, J.B., Redding, S.J. and P.K. Schott, 2012. The empirics of firm heterogeneity and international trade. *Annual Review of Economics*, 4, 283-313.

Bloom, N., Draca, M. and J. van Reenen, 2011. Trade induced technical change? The impact of Chinese imports on innovation, IT and productivity. NBER Working Paper no. 16717, National Bureau of Economic Research.

Bustos, P., 2011. Trade liberalization, exports, and technology upgrading: Evidence on the impact of MERCOSUR on Argentinian firms. *American Economic Review*, 101(1), 304-40.

Clerides, S., S. Lach and J. Tybout, 1998. Is learning by exporting important? Micro-dynamic Evidence from Colombia, Mexico, and Morocco. *Quarterly Journal of Economics*, 113(3), 903-47.

Crozet, M. and P. Koenig, 2010. Structural gravity equations with intensive and extensive margins. *Canadian Journal of Economics*, 43, 41-62.

Das, M., M. Roberts and J. Tybout, 2007. Market entry costs, producer heterogeneity and export dynamics. *Econometrica*, 75(3), 837-873.

Eaton, J., Kortum, S. and F. Kramarz, 2003. An anatomy of international trade: Evidence from French firms. *Econometrica*, 79(5), 1453-1498.

Eaton, J., Kortum, S. and F. Kramarz, 2004. Dissecting trade: Firms, industries, and export destinations. *American Economic Review Papers and Proceedings*, 94(2), 150-154.

Giordano, M. and L. Zhu, 2013. Import competition from and outsourcing to China: A curse or blessing for firms? *Journal of International Economics*, 89(1), 202-215.

Hummels, D., Jørgensen, R., Munch, J. and C. Xiang, 2014. The wage effects of offshoring: Evidence from Danish matched worker-firm data. American Economic Review, 104(6), 1597-1629.

Lileeva, A. and D. Trefler, 2010. Improved access to foreign markets raises plant-level productivity…For some plants. *Quarterly Journal of Economics*, 125(3), 1051-1091.

Melitz, M.J., 2003. The impact of trade on intra-industry reallocations and aggregate industry productivity. *Econometrica*, 71(6), 1695-1725.

Melitz, Marc, and Gianmarco Ottaviano (2003), "Market Size, Trade and Productivity", working paper, Harvard University.

Pavcnik, N., 2002. Trade liberalization, exit, and productivity improvements: Evidence from Chilean plants. *Review of Economic Studies*, 69, 245-76.

Roberts M. and J. Tybout, 1997. The decision to export in Colombia: An empirical model of entry with sunk costs. *American Economic Review*, 87(4), 545-564.

Wagner, J., 2007. Exports and productivity: A survey of the evidence from firm-level data. *World Economy*, 30, 60-82.

Wagner, J., 2012. International trade and firm performance: A survey of empirical studies since 2006. *Review of World Economics*, 148, 235-267.

Firms and the Decision to Invest Abroad

Aitken, B. and A. Harrison, 1999. Do domestic firms benefit from foreign direct investment? Evidence from Venezuela. *American Economic Review*, 89(3), 605-618.

Aitken, B., G. Hanson and A.E. Harrison, 1997. Spillovers, foreign investment, and export behaviour. *Journal of International Economics*, 43(1), 103-132.

Görg, H. and D. Greenaway, 2004. Much ado about nothing? Do domestic firms really benefit from foreign direct investment? *World Bank Research Observer*, 19, 171-197.

Haskel, J.E. and Pereira, S. and M. Slaughter, 2007. Does inward foreign direct investment boost the productivity of domestic firms? *Review of Economics and Statistics*, 89(3), 482-496.

Helpman, E., Melitz, M. and S. Yeaple, 2004. Exports versus FDI with heterogeneous Firms. *American Economic Review*, 94(1), 300-316.

Keller, W. and S. Yeaple, 2009. Multinational enterprises, international trade, and productivity growth: Firm level evidence from the United States. *Review of Economics and Statistics*, 91(4), 821-831.

Moran, T.H., Graham, E.M. and M. Blomström, 2005. *Does Foreign Direct Investment Promote Development?* Institute for International Economics, Washington, D.C.

Smarzynska Javorcik, B., 2004. Does foreign direct investment increase the productivity of domestic firms? In search of spillovers through backward linkages. *American Economic Review*, 94(3), 605-627.

Yasar, M. and C.J. Morrison Paul, 2007. International linkages and productivity at the plant level: Foreign direct investment, exports, imports and licensing. *Journal of International Economics*, 72, 373-388.

Yeaple, S. 2003. The role of skill endowments in the structure of U.S. outward FDI. *Review of Economics and Statistics*, 85(3), 726-734.