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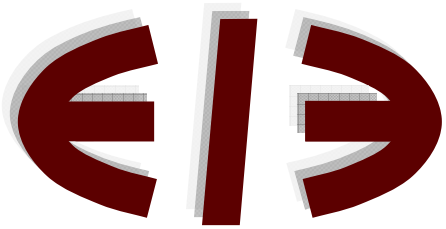

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STRUCTURAL ESTIMATION OF VARIETY GAINS FROM TRADE INTEGRATION IN A HETEROGENEOUS FIRMS FRAMEWORK

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Abstract. The present paper structurally estimates the impact of increased variety in the EU and Asia over the period from 1989 to 2009. Using the most disaggregated import data available, we document that the number of varieties imported by the EU, defined as the number of import categories multiplied by the average number of source countries for each category, quadrupled, whereas it sextupled in Asia. About half of this increase was due to increases in the number of categories and half due to a doubling of the number of countries from which the EU and Asia imported each good. Using the Feenstra's (1994) methodology we estimate 35,000 elasticities and then construct an aggregate price index that is robust to common changes in quality variation, the arbitrary splitting of categories, the introduction of new goods, and other data problems. After reconstructing the EU and Asia import price indices, we found that the price of the EU imports has been falling at a rate 1.24 percent per year faster than one would have thought without taking new varieties into account. The variety gains for Asia are even higher - 2.69 percent per year.

Keywords: Variety gains, structural estimation, trade integration, heterogenous firms.

JEL classification: C68, F12, F14, F15, F17, R12, R13, R23.