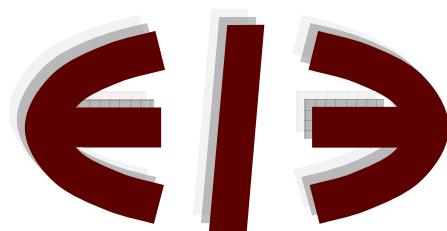


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STRUCTURAL ESTIMATION OF VARIETY GAINS FROM TRADE INTEGRATION IN A HETEROGENEOUS FIRMS FRAMEWORK

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The present paper studies the variety gains from trade integration. Applying a heterogeneous firm model we simulate trade liberalisation in alternative integration scenarios, where per unit trade costs, fixed trade costs and both of them are reduced. The main innovation of our paper is that we estimate the structural parameters of the underlying heterogeneous firm model econometrically based on a unique firm level panel data, which contains more than 250,000 observations for exporting firms. Our results suggest that the variety gains from trade integration are substantial. Reducing trade barriers by 15 percent induces variety growth, as a result of which the gains from trade integration are up to 17 percent higher than classical trade models would predict.

JEL Classification: F12, F14, R12, R23.

Keywords: Variety gains, Extensive margin, Structural estimation, Trade integration, Heterogeneous firms.
