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Essays on Gains from Trade
Dissertation Abstract

My dissertation examines three different aspects of welfare gains from international trade. The first essay shows that brand differentiation provides a new channel through which trade affects product variety and productivity within firms. This explains the conflicting effects of trade on within-firm variety and productivity gains. The second essay examines whether individual preferences based on distribution of gains from trade manifest themselves in adopted trade policies. The third essay examines the nature of selection on firm productivity as a source of gains from trade.

Trading Away Wide Brands for Cheap Brands. Multiproduct firms face competing needs for product variety and cost reduction. Firm reorientation between wide and cheap brands has substantial effects on industry-wide variety and productivity. New plant-level studies find trade liberalization has opposite effects on firm investments in product variety and cost reduction. Standard models explain how economies of scale from trade enable firms to produce cheap brands by investing in process innovation. However, they do not address the tradeoff between wide and cheap brands. This paper addresses this tradeoff by modeling the joint decision of product variety and cost reduction. I show that brand differentiation provides a new channel through which trade affects innovation. Due to intra-firm cannibalization from brand differentiation, firms react to import competition by making narrow brands. Foreign market access allows firms to produce cheap brands through process innovation. These conflicting forces provide sharp predictions of how trade liberalization affects product and process innovation within firms. Examining Thai manufacturing firms, I show that intra-firm cannibalization is empirically relevant and trade liberalization has the predicted effects on product and process innovation during Thai tariff changes of 2003-2006.

Reconciling Observed Tariffs and the Median Voter Model. Empirical studies show that factor ownership is associated with preferences over trade policy as predicted by the factor endowments model. Individuals who own more of their country's abundant factor are pro-trade while individuals who own less are anti-trade. I examine whether these preferences get reflected in trade policies adopted across countries. According to the median voter theory of trade policy, this finding implies positive tariffs in capital-abundant countries and negative tariffs in labor-abundant countries. I reconcile this empirically inconsistent prediction of the median voter theory with observed protectionism across countries. Considering market power in tariff-setting, I show the optimal tariff is a sum of the median voter component and a positive terms of trade component. This implies positive terms of trade effects can overcome the negative median voter component in labor-abundant countries, leading to positive tariffs across countries. Testing the tariff prediction, I provide evidence for each component in the 1990s. Tariffs are higher due to terms of trade considerations. In line with the median voter theory of trade policy, capital-abundant countries set higher tariffs while labor-abundant countries set lower tariffs on account of majority considerations.

Is Selection on Firm Productivity a Third Gain from Trade? (with John Morrow). A growing literature in industrial and international economics shows that trade liberalization provides industry-level productivity gains by selecting the most productive firms and weeding out the least productive ones. We examine the nature of Selection Effects as a source of gains from trade by addressing two questions: Do Selection Effects yield new gains from trade, distinct from comparative advantage and scale effects? If so, how does Selection caused by trade compare with domestic policy options? Examining heterogeneous firm models, we find the answer to each question depends not on the production structure rather on the demand structure.