Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: Piyusha Mutreja, Syracuse University

TITLE: Capital Goods Trade and Economic Development

TIME: 11:30-1:00 P.M.

DAY & DATE: Monday, 16th May, 2011 [NOTE: UNUSUAL DAY]

PLACE: Seminar Room 2, New Building

Abstract:

We embed a multi-sector, multi-country Ricardian model of trade into a neoclassical growth framework. We argue that international trade in capital goods is crucial to understand cross-country differences in capital formation and in income per worker. In our sample of 86 countries in 2005, over 80 percent of capital goods production in the world is concentrated in 9 countries; poor countries import most of their capital goods. Barriers to capital goods trade result in a misallocation of factors both within and across countries. We calibrate the model to bilateral trade flows. Our model accounts for 82 percent of the observed log variance in capital stock per worker, 53 percent in income per worker and 84 percent in the relative price of capital goods. Furthermore, the elasticity of the relative price of capital goods with respect to income per worker is -0.51 in the model and -0.47 in the data, while the elasticity of the price of consumption is 0.42 in the model and 0.51 in the data. Shutting down trade in capital goods forces poor countries to allocate productive resources away from the sector of their comparative advantage, thereby reducing capital stock formation as well as TFP. The welfare cost of such a shut down is 25 percent for countries in the bottom decile of the income distribution.

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