Discussion of

Volatility in the Small and in the Large: The Lack of Diversification in International Trade

by Francis Kramarz, Julien Martin, and Isabelle Mejean

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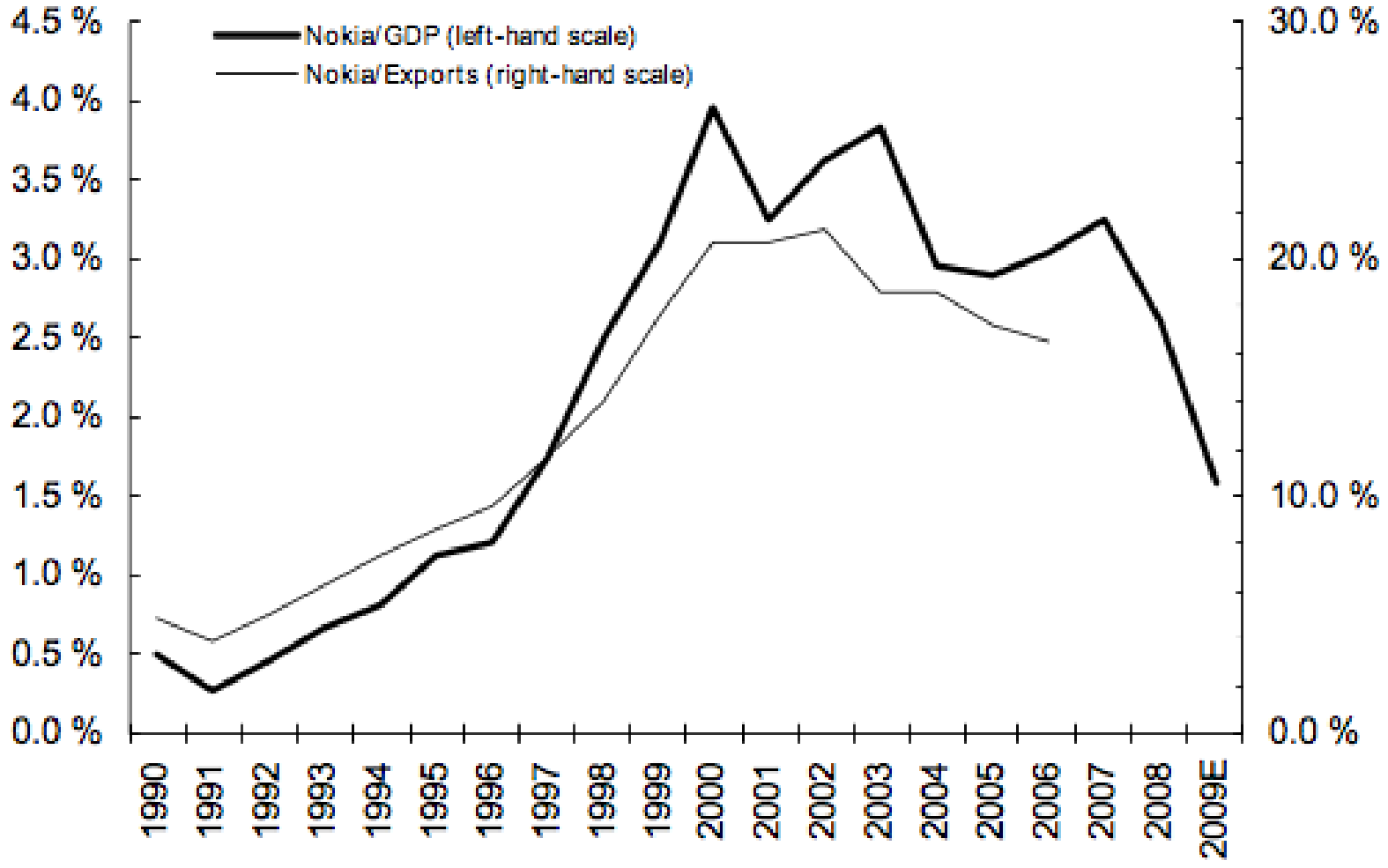
- New data:
  - Identity of foreign customers of French firms
- Interesting question:
  - How sensitive are country-level exports to micro-level shocks?
  - How well diversified are firms to shocks to their customers?

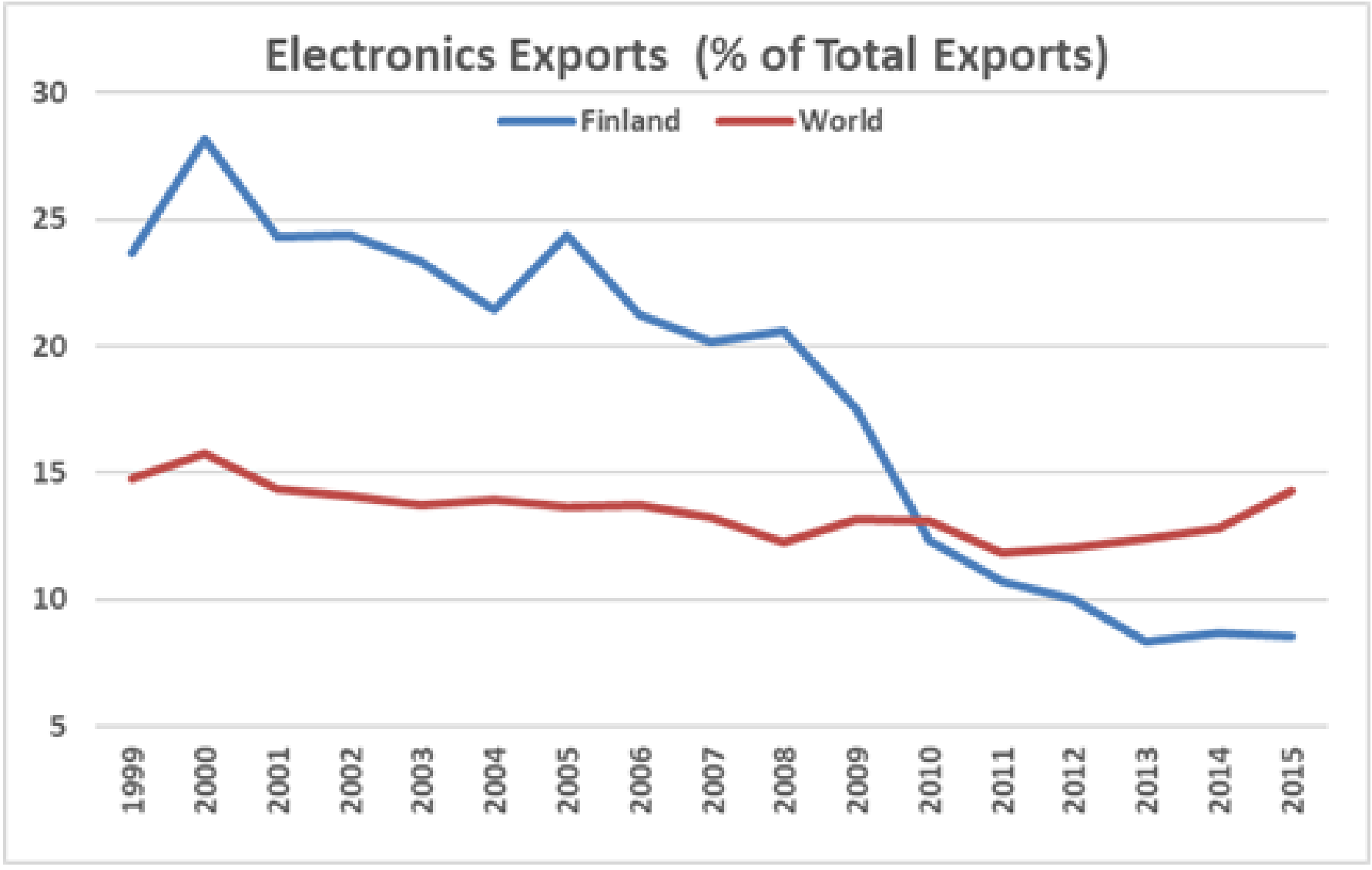
Nokia and Finland

Figure 1.1. Nokia as a share of exports and GDP, %



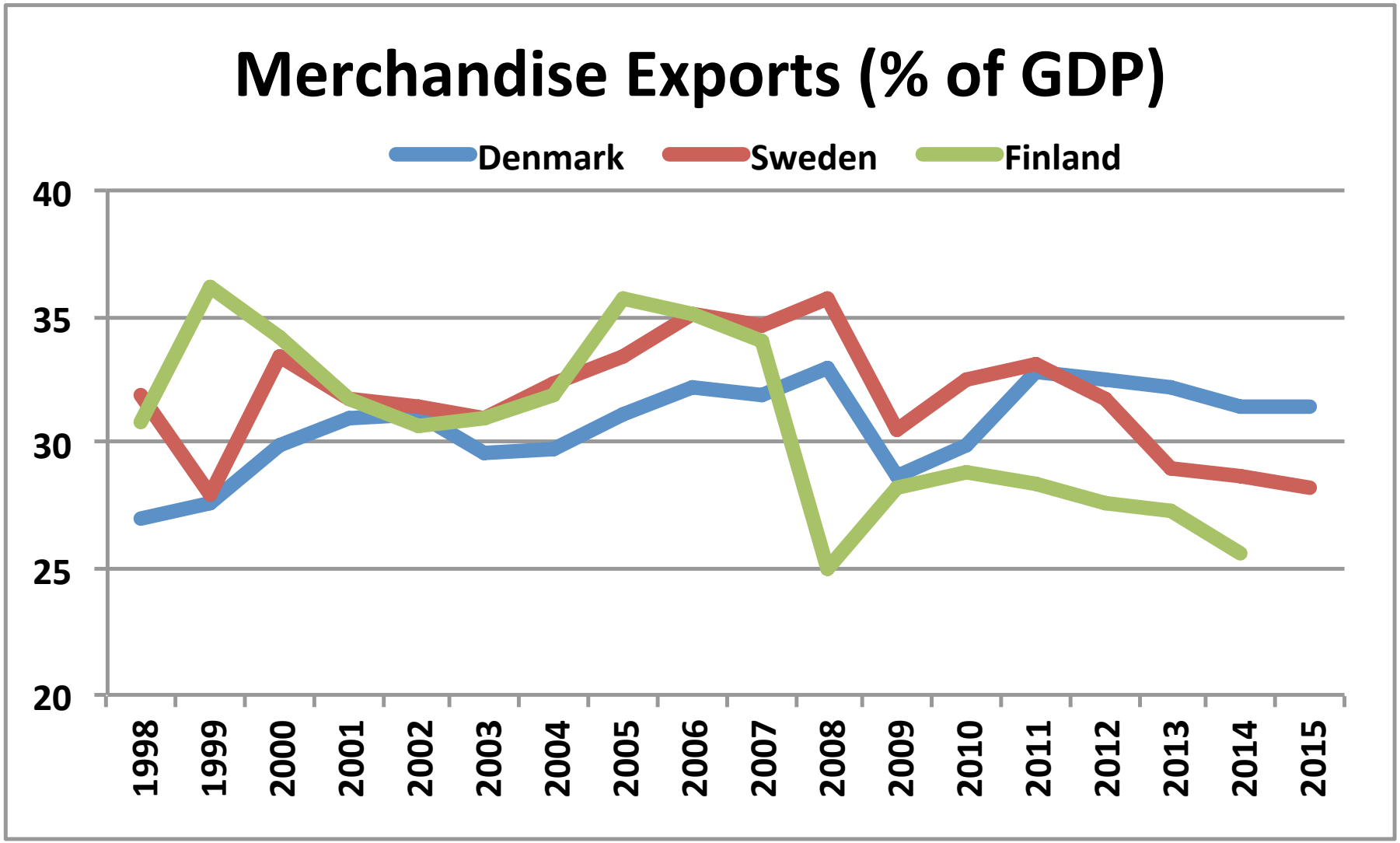
Source: ETLA - Research institute of the Finish economy, 2010

Exports of electronics



Source: UN comtrade

Agg. exports from Finland



Source: UN comtrade and WEO database

Overview

- Findings:
  - Buyer-seller-specific shocks account for almost 2/3 of firm-destination-specific volatility in exports
  - Eliminating all micro shocks accounts for a greater reduction in agg. destination-specific sales than the elimination of destination-specific macro shock

- Main comments:
  - Model / Estimation of buyer-, seller-, and buyer-seller-specific shocks
  - Measurement
  - Does trade lead to more or less volatility?

Key equation in model

- Sales from seller $s(i)$ to buyer $b(j)$ at time t:

$$p_{s(i)b(j)t}x_{s(i)b(j)t} = \bar{\sigma}(Z_{it}/\omega_{it})^{\sigma-1}A_{jt}z_{s(i)t}z_{b(j)t}^{\tilde{\sigma}}z_{s(i)b(j)t}^{\sigma-1}$$
$$\times\left(\sum_{i}\sum_{s(i)\in\Omega_{b(j)t}}\left(\frac{\omega_{it}}{Z_{it}z_{s(i)t}z_{s(i)b(j)t}}\right)^{1-\sigma}\right)^{\frac{\sigma-\eta}{1-\sigma}}$$

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  - Additional supplier will be misinterpreted as a buyer-specific shock when ignoring the endogeneity of the buyer's sourcing strategy

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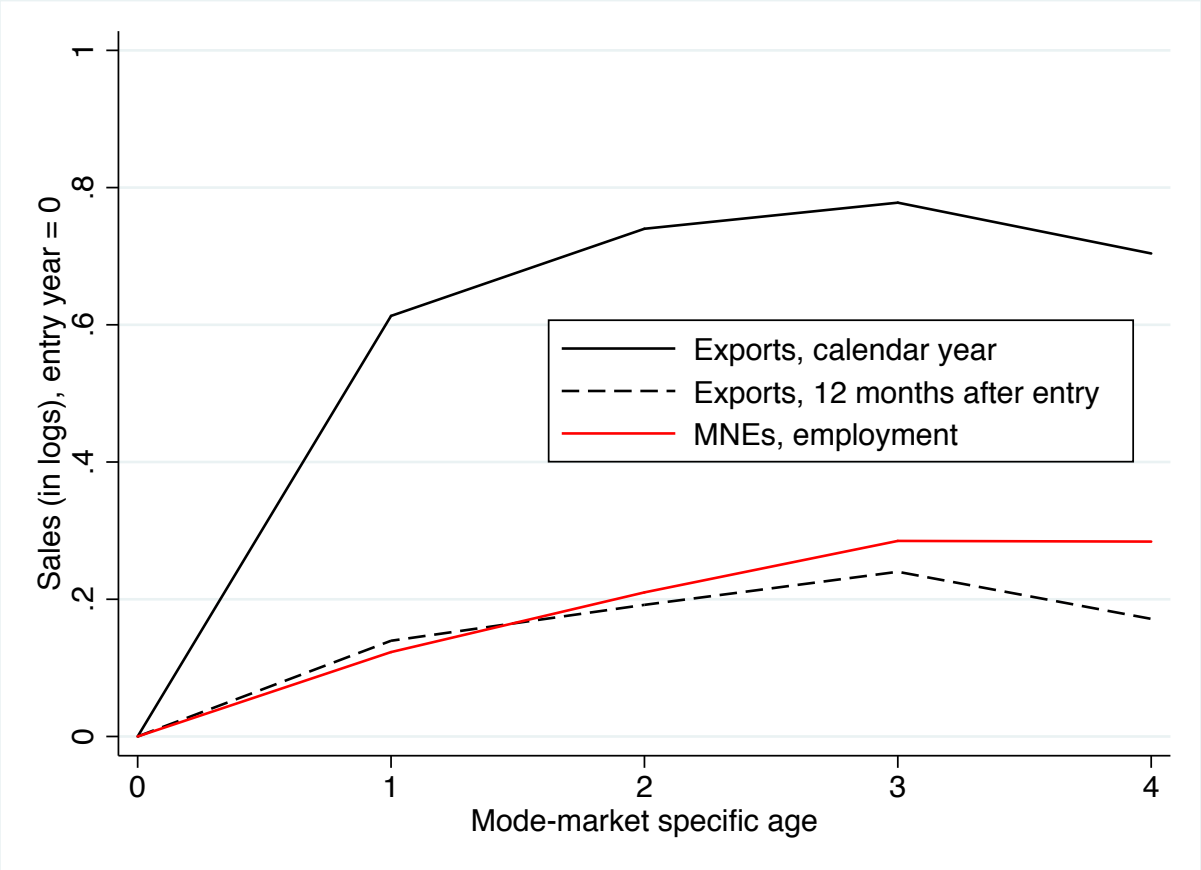
- These measurement errors could plausibly lead to an overstatement of the importance of firm-buyer-specific shocks.

Measurement: Partial-year effects



- Partial-year effects plausibly lead to an overstatement of the importance of firm-buyer-specific shocks.
- Remedies:
  - Calculate 12 months instead of calendar year exports
  - Drop first year of export sales to every destination

Bigger picture

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  - Need g.e. model to account for the hedging implied by the g.e. price effects after productivity shocks
  - Requires characterizing what the country would produce in the absence of trade
- Related to this question, KMM make an important point: We should not ignore micro-shocks since they account for a large share of the aggregate volatility in export sales.

Summary

- Great paper - I learned a lot from reading it.