Research Statement

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I am an applied theorist working in the areas of Macroeconomics and International Economics. Much of my work studies the macroeconomic consequences of various frictions—in the labor market, in the financial market, and in nominal price setting—in economies with micro-level heterogeneity. My work connects theory with detailed micro-level data in order to test or quantify theoretical mechanisms, or to use the structure of the model for theory-based identification. My interests extend to both positive and normative implications of the theoretical mechanisms that I study.

Trade and labor market outcomes

In “Labour Market Rigidities, Trade and Unemployment” (with Helpman) we develop a framework that integrates a frictional labor market into the recent generation of trade models with heterogeneous firms to study the consequences of the different labor market institutions in countries linked by international trade flows. In particular, we show that a more flexible labor market allows countries to reap greater benefits from international trade, and a unilateral labor market liberalization hurts the country’s trading partner. In “Inequality and Unemployment in a Global Economy” (with Helpman and Redding) we additionally introduce into this framework unobserved worker heterogeneity and costly screening by firms to study the distributional consequences of trade liberalization. Our model captures the firm size and exporter wage premia, two robust cross-sectional labor market patterns, and predicts a hump-shaped relationship between trade openness and wage inequality, for all countries independently of their skill-abundance and technological comparative advantage, in contrast with the traditional neoclassical trade theory. In “Trade and Inequality: From Theory to Estimation” (with Helpman, Muendler and Redding) we use Brazilian worker-firm matched data to show that much of the changes in wage inequality originate within sectors and occupations for workers with similar observed characteristics, and across rather than within firms, consistent with the predictions of our theoretical work. We then structurally estimate the extended theoretical model and show that both firm selection and firm international market access are important determinants of the distribution of worker wages, and that trade participation sizeably increases wage inequality through the mechanisms we emphasize. In work in progress (with Helpman) we study the dynamics of labor market reallocation across sectors and firms and the short-run distributional consequences of the trade liberalization in a model with frictional labor market, heterogenous firms and homogenous labor force.

International prices

In “Currency Choice and Exchange Rate Pass-through” (with Gopinath and Rigobon) we show theoretically and confirm with the detailed micro-level data that in a world with inflexible nominal prices a firm’s currency choice for international transactions—which is crucial in the aggregate for the direction of international policy spillovers and the desirability of a floating exchange rate regime—depends on the medium-run exchange rate pass-through. In “Frequency of Price Adjustment and Pass-through” (with Gopinath) we show, using micro-level data, that the firms with longer price durations also choose to pass-through a smaller fraction of the cost shocks into their prices when they adjust them—a pattern consistent with cross-firm heterogeneity in markup elasticity. In “Search of Real Rigidities” (with Gopinath) uses international price data to assess the magnitude of real rigidities and their importance for the aggregate consequences of monetary policy shocks. In “Importers, Exporters and Exchange Rate Disconnect” (with Amiti and Konings) we merge Belgian import and export data at the firm level to show that the largest exporters, which account for the majority of trade flows, choose to pass-through little of the exchange rate movements into their export prices both because they effectively hedge their costs by importing a large share of intermediate inputs and because they actively
adjust their markups in response to cost shocks, while small exporters tend to have complete exchange rate pass-through. In work in progress (with Amiti, Konings and Weinstein) we use the same dataset to study the competitive consequences of exchange rate shocks by exploring the markup adjustment in the Belgian market by different firms (exporters, importers and domestic competitors).

**Some other research and work in progress** In “Fiscal Devaluations” (with Farhi and Gopinath) we study the equivalence of certain simple fiscal policies with nominal exchange rate devaluations in general dynamic environments with nominal frictions and fixed exchange rate. In work in progress (with Brunnermeier and Gourinchas) we study the ability of country-specific macro-prudential policies (bank regulation and liquidity provision) to substitute for monetary policy independence, given up by the members of a currency union, in an environment with nominal rigidities and imperfect financial markets. In “Optimal Development Policies with Financial Frictions” (with Moll) we study the Ramsey-optimal policies in economies with financial (collateral) constraints on heterogeneous entrepreneurs during different phases of transition dynamics. We show that during the initial phases of transition, when entrepreneurs are severely undercapitalized, the planner would choose pro-business (or wage suppression) policies—even if she only cares about the welfare of workers—in order to speed up entrepreneurial wealth accumulation and make the financial constraints less binding. We plan to extend this work to multi-sector and open economy environments, as well as to quantify the effects of macroeconomic policies adopted during the high-growth periods in such countries as Japan, Korea, Chile and China in the context of this framework.