Discussion of

"Innovation, Firm Dynamics and International Trade"

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NBER ITO Meeting
May 1, 2009

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Simple Model: Envelop Theorem

- Free Entry Condition:

$$n_e = \int_{z_d} \left\{ \left[1 + I(z_x) D^{1-\rho} \right] \pi(z) - n_f - I(z_x) n_x \right\}$$

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- Direct versus Indirect Effects:

$$(\rho - 1)\hat{Z} = \underbrace{s_x \widehat{D^{1-\rho}}}_{\text{direct}} + \underbrace{\left[\hat{M} + \phi_d \hat{Z}_d + \phi_x \hat{Z}_x \right]}_{\text{indirect}=(1-\lambda)\hat{Z}}$$

Comments: Limits of the Result

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$$(\lambda + \rho - 2)\hat{Z} = \tilde{s}_x \widehat{D^{1-\rho}}, \qquad \tilde{s}_x \neq s_x$$

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4. Large changes in D:

$$\mathrm{d}s_x/\mathrm{d}D^{1-\rho} \quad \text{depends on the model}$$