

Faculty Seminar 09.12.2024

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Abstract:

The geography of income and export patterns

Beyond home market effects, access to foreign demand is a driver of comparative advantage in vertically differentiated goods. I derive this result from a trade model with non-homothetic preferences and non-uniform international trade costs. Access to high-income consumers worldwide determines the production structure of a country if firms cannot tailor their product to different market's taste. If firms instead sell different goods to different markets, the role of location is diminished. Consistent with the model's prediction, I show that countries with better access to high-income markets sell disproportionately to rich countries, reflecting the higher quality of their output. This insight is reinforcing the role of economic integration for export promotion in vertically differentiated goods.