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Natalie Chen, Luciana Juvenal

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Quality and the Great Trade Collapse^{*†}

Natalie Chen
University of Warwick, CAGE,
CESifo and CEPR

Luciana Juvenal
International Monetary Fund

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Abstract

We investigate theoretically and empirically the heterogeneous effects of the global financial crisis on international trade flows differentiated by quality. Our model, which identifies the effect of quality on trade that arises on the demand side, through the relationship between income and quality choice, predicts that a negative income shock disproportionately reduces the demand for higher relative to lower quality traded goods (a “flight from quality”). Using a unique dataset of firm-level wine exports for an emerging market economy, Argentina, combined with experts wine ratings as a measure of quality, we find strong evidence of a flight from quality as we show that the values, volumes, unit values, and markups of higher quality exports contracted more sharply during the crisis. Our results imply that the exports of countries producing higher quality goods are likely to collapse more severely during recessions.

JEL Classification: F10, F14, F41

Keywords: Emerging markets, exports, financial crisis, heterogeneity, markups, quality, unit values, wine.

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†Natalie Chen, Department of Economics, University of Warwick, Coventry CV4 7AL, UK. E-mail: N.A.Chen@warwick.ac.uk (corresponding author) and Luciana Juvenal, International Monetary Fund. E-mail: ljuvenal@imf.org.

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