Essays on International Trade and Business Cycles

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A dissertation
submitted in partial fulfillment of the
requirements for the degree of

Doctor of Philosophy

University of Washington

2019

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Program Authorized to Offer Degree:
Economies

University of Washington

Abstract

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This research investigates how international trade and business cycles vary with characteristics of industries. The first chapter documents cost side industry heterogeneity across narrowly defined industries. The second and third chapters study the short run (international business cycle) and long run (home market effect) phenomenon, respectively. The research contributes to a better understanding of how the supply side industry heterogeneity plays a vital role in international trade and macroeconomics.

The first chapter provides a method to estimate the cost structure. The approach relies on cost minimization and free entry condition with frictions, which allows decomposing sources of economies of scale into a sloping marginal cost curve and fixed cost. The US manufacturing industry data show that industry-level economies of scale are more strongly associated with marginal costs than fixed costs.

The second chapter shows that the industry's international business cycle patterns vary systemically by the slopes. In industries with decreasing marginal costs, output, imports, and exports are all more correlated with aggregate GDP than in industries with increasing marginal costs. To rationalize the observed patterns, this chapter introduces sloping marginal cost curves and their variations across industries in an open economy macroeconomic model. It delivers endogenous export gains/losses and within-firm links between domestic and export markets which generate two attractive features of the model: (i) it raises model-implied cross-country aggregate GDP comovements which are close to the data, and (ii) it reproduces observed industrial international business cycle patterns. The results suggest that sloping marginal cost curves and their heterogeneity are informative to understand the international business cycle.

The third chapter studies how industry characteristics determine the home market effect: the impact of country size on trade surplus and the location of industries. This chapter constructs a two-country multi-

industry new trade model that allows for various supply- and demand-side industry characteristics. A novel feature of the model is that economies of scale arise not just from fixed costs, but also from sloping marginal cost curves. The model predicts that large countries have a higher concentration of industries in which (i) marginal costs are an important source of economies of scale, and (ii) products are more differentiated. This chapter tests these theoretical predictions using a gravity-based specification and introduces instrumental variables to fix measurement error and proxy problems. The empirical results are consistent with the main predictions of the model. The results show that the primary building blocks of new trade theory, economies of scale and product differentiation, are central to understanding international trade patterns in narrowly defined industries.

The research supposes that a non-linear cost function and variations in cost structure across industries improve our understanding of international trade and business cycles.

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ACKNOWLEDGMENTS

The author wishes to express sincere appreciation to the supervisory committee: Fabio Ghironi, John Geweke, Yu-chin Chen, and C. Leigh Anderson. For helpful comments, I thank Yoonsoo Lee, Nahyeon Bak, Federico Mandelman, and Rory Mullen.

DEDICATION

to my dear wife and daughter, Nahyeon Bak and Dawn Seoyoon Kim

Happy birthday Dawn! 05-15-2019

Chapter 1

ECONOMIES OF SCALE: PRODUCTION AND NONPRODUCTION INPUTS

1.1 Introduction

Even sloping marginal cost curves and fixed costs can derive economies of scale, the previous literature has focused on estimating economies of scale rather than their sources. This chapter provides evidence of the sloping marginal cost curves in the data. To do that, the chapter develops an empirical framework allowing for estimating the slope of marginal cost curves. The approach relies on cost minimization and free entry condition with frictions.

Many previous studies such as [Hall, 1988, Hall, 1990], [Burnside, 1996], [Basu and Fernald, 1997], [Basu et al., 2006], and [Chang and Hong, 2006] estimate returns to scale (or economies of scale) by using aggregated data (country- or industry-level). This chapter uses narrowly defined industry-level data on U.S. manufacturing. These data face aggregation and reallocation issues. As discuss in [Basu and Fernald, 1997], these issues cause different estimates across aggregation levels.[1] However, the previous empirical studies have not focused on the role of aggregation and reallocation in the stage of estimation. This chapter provides the empirical framework with more careful considerations of aggregations by entries. These are where the paper attempts to contribute in empirical macroeconomic literature.[2] The framework with entry frictions allows investigating the impacts of aggregations on economies of scale and their sources.

The distinguished feature of the empirical method in Section 1.2 is using production and non-production inputs, which allow for investigating that economies of scale arise from sloping marginal cost curves and non-production inputs.The data show evidence that sloping marginal costs curves are a more important source of different economies of scale across industries. First, the estimated slopes vary considerably across

[1] The whole economy estimates vs. The average of industry-level estimates. The average of narrowly defined industry-level estimates v.s. The average of broadly defined industry-level estimates. The average plant-level estimates vs. The average of industry-level estimates (or whole economy estimates).

[2] Even the entry can generate reallocations, this chapter does not cover another reallocations issues. We leave the impacts of reallocation on economies of scale for future research. See [Lee, 2007] and [Foster et al., 2008] for these issues.

industries.[3] Second, they are more strongly associated with economies of scale than nonproduction costs are. These empirical findings addresses the following question whether economies of scale arise from sloping marginal cost curves and their heterogeneity across industries can account for industrial international business cycles and international trade. Chapters 2 and 3 will answer these questions.

This chapter is organized as follows. Section 1.2 provides an empirical framework to study economies of scale, their sources, and industry heterogeneity. Sections 1.3 and 1.4 describe issues related to econometric methods and data. Section 1.5 presents the estimated cost structures in the U.S. manufacturing industries. The last section discusses the implications of our analysis.

1.2 Empirical Framework: Cost Structure from Data with Production and Nonproduction Inputs

1.2.1 Firm-level Economies of Scale

Consider firms that produce goods given the production function that transforms production inputs $\mathbf{x}_y = [x_{y,1}, \cdots, x_{y,J}]^{\mathrm{T}} \in \mathbb{R}_+^J$ into the quantity of output y. The corresponding price vector is $\mathbf{p}_{\mathbf{x}} = [p_{x,1}, \cdots, p_{x,J}]^{\mathrm{T}} \in \mathbb{R}_+^J$. Further, operating a firm requires nonproduction inputs $\mathbf{x}_{\mathrm{fc}} = [x_{\mathrm{fc},1}, \cdots, x_{\mathrm{fc},J}]^{\mathrm{T}} \in \mathbb{R}_+^J$. The nonproduction input $x_{\mathrm{fc},j}$ is in terms of efficient unit of production input $x_{y,j}$. Thus, they have the identical price $p_{x,j}$ in the competitive factor market j. Then, a vector of the total inputs is given by $\mathbf{x} = [x_1, \cdots, x_J]^{\mathrm{T}} = \mathbf{x}_y + \mathbf{x}_{\mathrm{fc}}$.

The cost structure follows the previous international trade and macro literature such as [Krugman, 1979], [Melitz, 2003], and [Bilbiie et al., 2012]. Let $\mathrm{tcost} = \mathbf{p}_{\mathbf{x}}{}^{\mathrm{T}}\mathbf{x}$, $\mathrm{pcost} = \mathbf{p}_{\mathbf{x}}{}^{\mathrm{T}}\mathbf{x}_y$, and $\mathrm{npcost} = \mathbf{p}_{\mathbf{x}}{}^{\mathrm{T}}\mathbf{x}_{\mathrm{fc}}$ be individual firm's total, production, and nonproduction costs, respectively. The cost functions $\mathbb{R}_+^J \to \mathbb{R}_+$ are

$$\mathrm{tcost} = \mathrm{pcost} + \mathrm{npcost} \quad \text{where} \quad \mathrm{pcost} = \bar{c}\left(\mathbf{p}_{\mathbf{x}}, Z\right) y^{1/\alpha} \quad \text{and} \quad \mathrm{npcost} = \bar{c}\left(\mathbf{p}_{\mathbf{x}}, Z\right) \mathrm{fc}, \tag{1.1}$$

where the function $\bar{c}\left(\mathbf{p}_{\mathbf{x}}, Z\right)$ is twice continuously differentiable and homogenous of the first degree with respect to the input prices $\mathbf{p}_{\mathbf{x}} = [p_{x,1}, \cdots, p_{x,J}]^{\mathrm{T}} \in \mathbb{R}_+^J$. Also, the function is homogenous of $1/\alpha$ degree with respect to productivity Z. In this specification, the nonproduction input j is not fixed. When its price of input j – $p_{x,j}$ – is high relative to other inputs, a firm substitutes the input j to other inputs for its operation.

[3] A wide range of literature have documented significant heterogeneity in economies of scale across industries, for examples, [Basu and Fernald, 1997], [Chang and Hong, 2006], and [Basu et al., 2006]. [Chang and Hong, 2006] and this chapter uses NBER CES database that tends to estimate relatively larger economies of scale than estimates based on KLEM data in [Basu and Fernald, 1997] and [Basu et al., 2006]. Their results are robust in the firm-level empirical studies such as [Lee, 2007]. However, their results do not directly mean heterogeneity in marginal cost structures.

The duality implies that there are well-defined production functions: $y = Z\left[f\left(\mathbf{x}_y\right)\right]^{\alpha}$ and $\mathrm{fc} = Z^{1/\alpha} f\left(\mathbf{x}_{\mathrm{fc}}\right)$.[4] The function $f\left(\cdot\right)$ is twice continuously differentiable and homogeneous the first degree. The productivity Z is Hicks-neutral. The specification follows [Krugman, 1979], [Melitz, 2003], and [Bilbiie et al., 2012]. On the other hand, [Hornstein, 1993], [Rotemberg and Woodford, 1995], [Devereux et al., 1996], and [Kim, 2004] assume $\mathrm{tcost} = \bar{c}\left(\mathbf{p}_{\mathbf{x}}, Z\right)\left(y + \mathrm{fc}\right)^{1/\alpha}$: $y + \mathrm{fc} = Z\left[f\left(\mathbf{x}\right)\right]^{\alpha}$. In this case, it is hard to separate nonproduction inputs from total inputs.

The inverse elasticity of production costs with respect to output is the constant α, which determines the curvature of the total cost curve. Then, the marginal cost function satisfies $\mathrm{mc} = \left(\alpha y\right)^{-1}\mathrm{pcost}$. The output elasticity of marginal costs is constant as follows.

$$\frac{\partial \ln \mathrm{mc}}{\partial \ln y} = \frac{1}{\alpha} - 1 \tag{1.2}$$

When $\alpha = 1$, the marginal cost is constant in how much the firm produces, in other words, a flat marginal cost curve. Also, $\alpha > 1$ or $\alpha < 1$ implies the downward or upward sloping marginal cost curve, respectively. The inverse elasticity of total cost measures economies of scale (returns to scale), denoted eos.[5]

$$\mathrm{eos} = \frac{\mathrm{tcost}}{y}\frac{1}{\mathrm{mc}} = \alpha\left(1 + \frac{\mathrm{npcost}}{\mathrm{pcost}}\right) \tag{1.3}$$

There are two sources of economies of scale in Equation (1.3). First, the downward sloping marginal cost curve $\alpha > 1$ causes $\mathrm{eos} > 1$. Second, nonproduction costs $\mathrm{npcost}/\mathrm{pcost}$ increase eos.

In each period, an individual firm's cost minimizing can be represented by the following Largangian.

$$\mathcal{L}\left(\mathbf{x}_y, \mathbf{x}_{\mathrm{fc}}, \lambda_y, \lambda_{\mathrm{fc}}\right) = \mathbf{p}_{\mathbf{x}}{}^{\mathrm{T}}\mathbf{x}_y + \mathbf{p}_{\mathbf{x}}{}^{\mathrm{T}}\mathbf{x}_{\mathrm{fc}} + \lambda_y\left\{y - Z\left[f\left(\mathbf{x}_y\right)\right]^{\alpha}\right\} + \lambda_{\mathrm{fc}}\left\{\mathrm{fc} - Z^{1/\alpha} f\left(\mathbf{x}_{\mathrm{fc}}\right)\right\}, \tag{1.4}$$

where the Lagrangian multiplier is λ_y that equals to the marginal cost. The value of nonproduction is λ_{fc} that that equals to $\bar{c}\left(\mathbf{p}_{\mathbf{x}}, Z\right)$.

The firm's markup denoted μ is is the ratio between its price p and marginal costs mc. The first order condition of $x_{y,j}$ is $p_{x,j} = \lambda_y\left(\partial y/\partial x_{y,j}\right) = p\left(\partial y/\partial x_{y,j}\right)/\mu$ because $\lambda_y = \mathrm{mc} = p/\mu$. Thus, the markup

[4] Alternatively, $\mathrm{fc}' = Z\left[f\left(\mathbf{x}_{\mathrm{fc}}\right)\right]^{\alpha}$ Since fc and fc' are exogenously given, the benchmark and alternative form are isomorphic.

[5] Alternatively, it can be derived from the relationship as follows. Let Δ be the growth rate. $\Delta y = \Delta Z + \alpha\Delta f\left(\mathbf{x}_y\right)$ where $\Delta f\left(\mathbf{x}_y\right)$ is the cost share weighted growth rate in production inputs. Also, $\mathrm{tcost}\Delta f\left(\mathbf{x}\right) \approx \mathrm{pcost}\Delta f\left(\mathbf{x}_y\right) + \mathrm{npcost}\Delta f\left(\mathbf{x}_{\mathrm{fc}}\right)$ where $\Delta f\left(\mathbf{x}\right)$ and $\Delta f\left(\mathbf{x}_{\mathrm{fc}}\right)$ are the cost share weighted growth rate in total inputs and nonproduction inputs, respectively. $\Delta f\left(\mathbf{x}_{\mathrm{fc}}\right)$ is independent of output growth Δy in the firm level. Thus, the partial derivation is $\frac{\partial \Delta y}{\partial \Delta f(\mathbf{x})} = \alpha\left(1 + \mathrm{npcost}/\mathrm{pcost}\right)$.

is

$$\mu = \left[\frac{x_{y,j}}{y}\frac{\partial y}{\partial x_{y,j}}\right]\frac{py}{p_{x,j}x_{y,j}}, \qquad \text{for } j = 1, \cdots, J, . \tag{1.5}$$

The Euler's homogeneous function theorem implies that

$$\mu = \alpha\frac{py}{\text{pcost}} = \frac{\alpha}{1-s_\pi}\left(1+\frac{\text{npcost}}{\text{pcost}}\right) = \frac{\text{eos}}{1-s_\pi}, \tag{1.6}$$

where π and s_π are the profit and the profit share, respectively. Thus, the markup approaches to firm's economies of scale when its profit goes to zero.

1.2.2 Industry-level Economies of Scale: Role of Entries

Endogenous entry yields a difference between industry- and firm-level production functions because the changes in the number of firms endogenize the nonproduction cost in the (aggregated) industry level.

Consider monopolistic competition. Then, the profit excluding nonproduction costs is $(1-\alpha/\mu)\,py$ when a firm produces. The condition for the non-corner solution is $\mu > \alpha$. $\mu < \alpha$ implies a natural monopoly. $\mu = 1$ and $\alpha \leq 1$ in a perfectly competitive market.

The industry output (value of shipments) is $PY = \sum py$. The price index is normalized by one: $P = 1$. The number of firms in the industry is denoted by N. Then, the identical firms imply that $Y = Npy = N^\mu y$ because $p = N^{\mu-1}$.[6] The individual and industry profits are π and $\Pi = N\pi$, respectively. The industry total, production, and nonproduction inputs are $\mathbf{X} = N\mathbf{x}$, $\mathbf{X}_y = N\mathbf{x}_y$, and $\mathbf{X}_{\text{fc}} = N\mathbf{x}_{\text{fc}}$, respectively.

The entry condition depends on a degree of competition (the number of existing firms or varieties). In line with this, the framework introduces the speed of firm entries denoted by ε. The following modified entry condition is

$$1 = \left(1-\frac{S_\Pi}{1-\alpha/\mu}\right)^\varepsilon\left(\frac{N}{N_0}\right)^{1-\varepsilon}, \tag{1.7}$$

where $S_\Pi = \Pi/Y$ is the profit share. The share is constrained by $1-\alpha/\mu$ representing the profit divided by the production costs. The parameter $\varepsilon \geq 0$ represents how much it is easy for new entrants to enter the market. The parameter is inversely related to the wedge or friction in the firm entry. If $\varepsilon = 1$, the firm entry is fully flexible. The above condition is equal to the traditional free entry condition (or zero profit condition:

[6] The price index is defined by $P = \left(\sum p^{1-\theta}\right)^{1/(1-\theta)}$ where $\theta > 1$ is the elasticity of substitution across goods. The markup is $\mu = \theta/(\theta-1)$. Thus, identical firms and $P = 1$ imply $p = N^{\mu-1}$.

$S_\Pi = 0$), which determines the number of firms. If $\varepsilon = 0$, the number of firms is fixed as the arbitrary number N_0.

The (industry) aggregate production and nonproduction costs are $\mathrm{PCOST} = N\mathrm{pcost} = \mathbf{p_x}^{\mathrm{T}}\mathbf{X}_y$ and $\mathrm{NPCOST} = N\mathrm{npcost} = \mathbf{p_x}^{\mathrm{T}}\mathbf{X}_{\mathrm{fc}}$, respectively. Equation (1.6) implies $S_\Pi = (1 - \alpha/\mu)\,\mathrm{TCOST}/\mathrm{PCOST}$. Thus, the modified entry condition is rewritten as follows.

$$\left(\frac{\mu}{\alpha} - 1\right)\frac{\mathrm{PCOST}}{\mathrm{NPCOST}} = \left(\frac{N}{N_0}\right)^{1/\varepsilon - 1}, \tag{1.8}$$

where at the aggregate industry level, the nonproduction costs are not anymore fixed because of the endogenously determined number of firms.

The industry output is $Y = Npy = N^{\mu-\alpha} Z \left[f\left(\mathbf{X}_y\right)\right]^{\alpha}$. Since Equation (1.8) implies

$$N = N_0 \left[\left(\frac{\mu}{\alpha} - 1\right)\frac{f\left(\mathbf{X}_y\right)}{f\left(\mathbf{X}_{\mathrm{fc}}\right)}\right]^{\varepsilon/\varepsilon - 1}, \tag{1.9}$$

the output is given by

$$Y = Npy = \tilde{Z}_\beta \left[f\left(\mathbf{X}_y\right)\right]^{\alpha + \frac{\varepsilon}{1-\varepsilon}(\mu-\alpha)} \left[f\left(\mathbf{X}_{\mathrm{fc}}\right)\right]^{-\frac{\varepsilon}{1-\varepsilon}(\mu-\alpha)}, \tag{1.10}$$

where $\tilde{Z}_\beta = Z N_0^{\mu-\alpha}$. Thus, the marginal output elasticity of production inputs is $\alpha + \frac{\varepsilon}{1-\varepsilon}(\mu - \alpha)$.

Equation (1.8) implies $N = N_0^{1-\varepsilon}\left[\left(\frac{\mu}{\alpha} - 1\right) A^{1/\alpha} f\left(\mathbf{X}_y\right)/\mathrm{fc}\right]^{\varepsilon}$. By putting the above into $Y = N^{\mu-\alpha} Z \left[f\left(\mathbf{X}_y\right)\right]^{\alpha}$, the output function becomes

$$Y = \tilde{Z}_{\gamma_y} \left[f\left(\mathbf{X}_y\right)\right]^{\varepsilon\mu + (1-\varepsilon)\alpha}, \tag{1.11}$$

where $\tilde{Z}_{\gamma_y} = \left[(\mu/\alpha - 1)/\mathrm{fc}\right]^{\varepsilon(\mu-\alpha)} Z^{1+\varepsilon(\mu-\alpha)/\alpha} N_0^{(1-\varepsilon)(\mu-\alpha)}$. The output elasticity of production inputs is the combination of returns to scale and markups.

Suppose that $f(\cdot)$ is a Cobb-Douglas function. The growth rate of output is denoted by ΔY that can be represented by the output elasticity multiplied by the cost share growth rate of total, production, nonproduction inputs ($\Delta f(\mathbf{X})$, $\Delta f(\mathbf{X}_y)$, and $\Delta f(\mathbf{X}_{\mathrm{fc}})$, respectively) as follows.

$$\Delta Y = \Delta\tilde{Z}_\beta + \beta_y \Delta f\left(\mathbf{X}_y\right) + \beta_{\mathrm{fc}} \Delta f\left(\mathbf{X}_{\mathrm{fc}}\right) \tag{1.12}$$

$$\Delta Y = \Delta\tilde{Z}_{\gamma_y} + \gamma_y \Delta f\left(\mathbf{X}_y\right) \tag{1.13}$$

$$\Delta Y = \Delta\tilde{Z}_\gamma + \gamma \Delta f\left(\mathbf{X}\right), \tag{1.14}$$

where β_y, β_{fc}, and γ_y are

$$\beta_y = \alpha + \frac{\varepsilon}{1-\varepsilon}(\mu - \alpha), \tag{1.15}$$

$$\beta_{\text{fc}} = \alpha - \beta_y - \frac{\varepsilon}{1-\varepsilon}(\mu - \alpha), \tag{1.16}$$

$$\gamma_y = \varepsilon\mu + (1-\varepsilon)\alpha. \tag{1.17}$$

Since $\text{TCOST}\Delta f(\mathbf{X}) \approx \text{PCOST}\Delta f(\mathbf{X}_y) + \text{NPCOST}\Delta f(\mathbf{X}_{\text{fc}})$, the output elasticity of total costs is

$$\text{EOS} = \gamma = \frac{\text{TCOST}}{\text{PCOST} + \varepsilon\text{NPCOST}}[\varepsilon\mu + (1-\varepsilon)\alpha], \tag{1.18}$$

which is a degree of economies of scale at the (aggregated) industry-level. The nonproduction costs and $\varepsilon \neq 1$ break the equality of the markup and economies of scale. If $\varepsilon = 1$, the entry condition implies that the degree of economies of scale equals the markup as [Rotemberg and Woodford, 1995] and [Basu and Fernald, 1997] point out. In the case, $\mu \geq 1$ implies that the industry-level returns to scale must be either constant or increasing, which is inconsistent with the empirical findings of industry level estimation. However, the empirical framework in this section suggests that a significant amount of the wedge ($\varepsilon > 0$) and the small output elasticity of production input ($\alpha < 1$) can generate significantly diminishing returns (diseconomies). Furthermore, if the number of firms is fixed, $\varepsilon = 0$, the relationship among EOS, α and $\text{NPCOST}/\text{NPCOST}$ equals the relationship in the firm level as in Equation (1.3).

1.2.3 Data-consistent vs Welfare-based Price Indices

As discussed in [Ghironi and Melitz, 2005], real variables in data are based on consumer price index (CPI), and they do not count variety effects. Thus, they define the data-consistent (aggregated) industry output as $Y_R = N^{1-\mu}Y$. Equations (1.10) and (1.11) become

$$Y_R = \tilde{Z}_{\beta,R}[f(\mathbf{X}_y)]^{\alpha + \frac{\varepsilon}{1-\varepsilon}(1-\alpha)}[f(\mathbf{X}_{\text{fc}})]^{-\frac{\varepsilon}{1-\varepsilon}(1-\alpha)} \tag{1.19}$$

$$Y_R = \tilde{Z}_{\gamma_y,R}[f(\mathbf{X}_y)]^{\varepsilon + (1-\varepsilon)\alpha}, \tag{1.20}$$

where $\tilde{Z}_{\beta,R} = ZN_0^{1-\alpha}$ and $\tilde{Z}_{\gamma_y,R} = \left[(\mu/\alpha - 1)/\mathrm{fc}\right]^{\varepsilon(1-\alpha)} Z^{1+\varepsilon(\mu-\alpha)/\alpha} N_0^{(1-\varepsilon)(1-\alpha)}$. Then, the equations are

$$\Delta Y_R = \Delta \tilde{Z}_{\beta,R} + \beta_{y,R} \Delta f\left(\mathbf{X}_y\right) + \beta_{\mathrm{fc},R} \Delta f\left(\mathbf{X}_{\mathrm{fc}}\right) \tag{1.21}$$

$$\Delta Y_R = \Delta \tilde{Z}_{\gamma_y,R} + \gamma_{y,R} \Delta f\left(\mathbf{X}_y\right) \tag{1.22}$$

$$\Delta Y_R = \Delta \tilde{Z}_{\gamma,R} + \gamma_R \Delta f\left(\mathbf{X}\right). \tag{1.23}$$

The coefficients are

$$\beta_{y,R} = \alpha + \frac{\varepsilon}{1-\varepsilon}\left(1-\alpha\right), \tag{1.24}$$

$$\beta_{\mathrm{fc},R} = \alpha - \beta_{y,R}, \tag{1.25}$$

$$\gamma_{y,R} = \varepsilon + \left(1-\varepsilon\right)\alpha, \tag{1.26}$$

$$\gamma_R = \frac{\mathrm{TCOST}}{\mathrm{PCOST} + \varepsilon \mathrm{NPCOST}} \gamma_{y,R}. \tag{1.27}$$

The above result implies that a degree of economies of scale with CPI-based output measure depends on the marginal cost curve (inverse elasticity of production costs) and on the nonproduction costs as follows.

$$\mathrm{EOS}_R = \frac{\mathrm{TCOST}}{\mathrm{PCOST} + \varepsilon \mathrm{NPCOST}} \left[\varepsilon + \left(1-\varepsilon\right)\alpha\right] \tag{1.28}$$

As EOS, EOS_R equals to the elasticity of variable cost α without the firm entry (fixed number of firms: $\varepsilon = 0$). If $\varepsilon = 1$, then the observed industry-level economies of scale is close to one. Without the variety effect, frictionless free entry yields no aggregate-level scale effect. A sharply upward sloping marginal cost curve (small $\alpha < 1$) with $\varepsilon \in (0,1)$ generate diseconomies of scale.

Because $\mu \geq 1$ and $\varepsilon \geq 0$, the CPI-based measure of economies of scale is smaller than the welfare-based measure of economies of scale. The difference between welfare- and CPI-based economies of scale measurements converges to zero in the fixed number of firms (no firm entry).

$$\mathrm{EOS} - \mathrm{EOS}_R = \frac{\mathrm{TCOST}}{\mathrm{PCOST} + \varepsilon \mathrm{NPCOST}} \varepsilon\left(\mu - 1\right) \rightarrow 0 \quad \text{as } \varepsilon \rightarrow 0$$

Moreover, the perfectly competitive market yields $\mathrm{EOS} = \mathrm{EOS}_R$, because $\mu = 1$ implies perfect substitutes across products, in other words, homogenous products. Since people do not care about varieties, the average price (CPI) is welfare-consistent.

1.3 Methodology

This section describes estimation of the cost structure. Section 1.2 will be applying the estimation method using data. There are two way to estimate parameters: benchmark and alternative.

The benchmark uses Equation (1.21) which permits estimation of many parameters representing industry level cost structures. As the first step, estimate the following equation.

$$\Delta Y_R = \text{constant} + \beta_{y,R} \Delta f\left(\mathbf{X}_y\right) + \beta_{\text{fc},R} \Delta f\left(\mathbf{X}_{\text{fc}}\right) + \epsilon_\beta \tag{1.29}$$

Then, Equations (1.24) and (1.25) imply that estimates give $\alpha = \beta_{y,R} + \beta_{\text{fc},R}$. Additionally, $\varepsilon = \frac{\beta_{\text{fc},R}}{\beta_{y,R}+2\beta_{\text{fc},R}-1}$. The implied output elasticity of production and total inputs $\gamma_{y,R}$ and γ_R can be calculated by Equations (1.26) and (1.27).

Alternatively, combining the regressions based on the following two equations allows for estimating α and the other parameters. As in the previous literature, the following regression gives the measure for economies of scale.

$$\Delta Y_R = \text{constant} + \gamma_R \Delta f\left(\mathbf{X}\right) + \epsilon_\gamma \tag{1.30}$$

Also, the following regression gives the measure for output elasticity of production inputs.

$$\Delta Y_R = \text{constant} + \gamma_{y,R} \Delta f\left(\mathbf{X}_y\right) + \epsilon_{\gamma_y} \tag{1.31}$$

Each regression cannot estimate the sloping marginal cost curve coefficient α and the wedges in the firm entry ε solely . The ratio of two estimators is given by

$$\frac{\gamma_R}{\gamma_{y,R}} = \frac{1 + \text{NPCOST}/\text{PCOST}}{1 + \varepsilon\text{NPCOST}/\text{PCOST}}. \tag{1.32}$$

If $\varepsilon \in [0, 1)$, the ratio is greater than one because the total costs are less flexible than the production costs due to nonproduction inputs. Thus, a large amount of nonproduction inputs increases the ratio. When the firm entry is excessively flexible, $\varepsilon > 1$, the ratio can be smaller than one, which case is rarely observed in the data. Equation (1.32) is the alternative method for calculating ε because TCOST, PCOST, and NPCOST are directly observable. Finally, for given ε we can calculate the implied α by using $\gamma_{y,R} = \varepsilon + (1-\varepsilon)\,\alpha$.

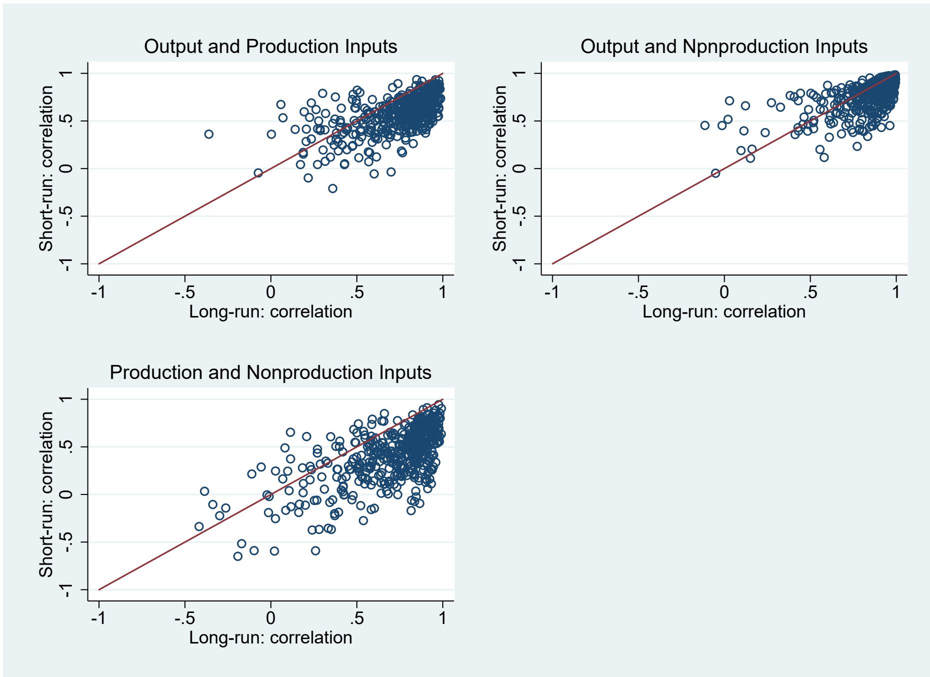

Figure 1.1: Correlations: Short- and Long-run Growth Rates of Outputs and Cost Share-weighted Inputs

Notes: The red lines are the 45 degree line. The number of observations is 467 industries. The short-run and long-run growth rates are 1 and 10 years, respectively.

1.4 Data and Estimation

The six-digit North American Industry Classification System (NAICS) industry data used in this study are taken from the NBER-CES Manufacturing Industry Database (annual from 1958 through 2011).[7] These data provide each industry's value of the shipments, value-added, inputs (labor, capital, and materials), and their deflators. The major advantage is that these data collect production and nonproduction labor inputs and costs. Appendix B illustrates how to construct the cost share-weighted growth rate in total, production, and nonproduction inputs, and it also describes the details of data sources, sample construction, variables, and measurements.

Figure 1.1 displays correlations among output, cost share-weighted production and nonproduction inputs

[7]Link to `http://www.nber.org/nberces/`. See [Bartelsman and Gray, 1996a] for the details of data. The six-digit NAICS corresponds to the four-digit Standard Industrial Classification (SIC).

for the narrowly defined industry level. The specification predicts that the production and nonproduction input growth rates are perfectly correlated when firm entry is fully flexible (no friction: $\varepsilon = 1$). Oppositely, the fixed number of firms (no entry: $\varepsilon = 0$) implies that they are orthogonal: zero correlation. Figure 1.1 shows the descriptive evidence of heterogeneous degree of entry frictions across industries. The unweighted and weighted median of correlations are 0.472 and 0.560 in the short run (1 year), respectively. In the long run (10 year), they are 0.808 and 0.831, respectively.[8]

To estimate an industry-level production functions based on Equations (1.29), (1.30), and (1.31), we consider both instrumented and uninstrumented regressions by using Generalized Method of Moments (GMM) estimator.[9] Production function estimates obtained by the uninstrumented method are biased by the association between productivity and input demands. To control for endogeneity, demand-side instruments such as oil price shocks, the president's party, government defense spending, and monetary policy shocks are widely used. (See Appendix B.2.4 for the details.) According to [Basu and Fernald, 1997], the demand-side instruments are not completely exogenous and are weakly correlated to regressors. In this case, [Nelson and Startz, 1990] point out that IV estimates can be more biased than ordinary least squares estimates. Thus, the section focuses on the uninstrumented results. Also, this study is interested in the cost-structure heterogeneity across industries. Thus, uninstrumented GMM estimation serves the primary purpose of this study.

1.5 Estimation Result: Cost Structure

The data covers 467 six-digit NAICS manufacturing industries. Theoretically, economies of scale, output elasticity of production inputs (marginal cost coefficient), and firm entry wedge have to be non-negative. Thus, the estimates are dropped when they have negative values. Their contribution in the economy is negligible. For example, the estimated α with the benchmark method is one industry: NAICS 311920 coffee and tea manufacturing industry. Thus, allowing negative estimates has no significant impact on all final results. See Appendix B.2.5 for the details of the dropping procedure.[10]

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[8]See Table C.1 in Appendix C for the details.

[9]Standard errors with heteroskedasticity and autocorrelation consistent (HAC) estimator in Table C.1 in Appendix C are calculated based on HAC weight matrix using the specified kernel, and the lag order is selected using Newey and West's (1994) optimal lag-selection algorithm.

[10]See Table C.11 for the dropped estimates.

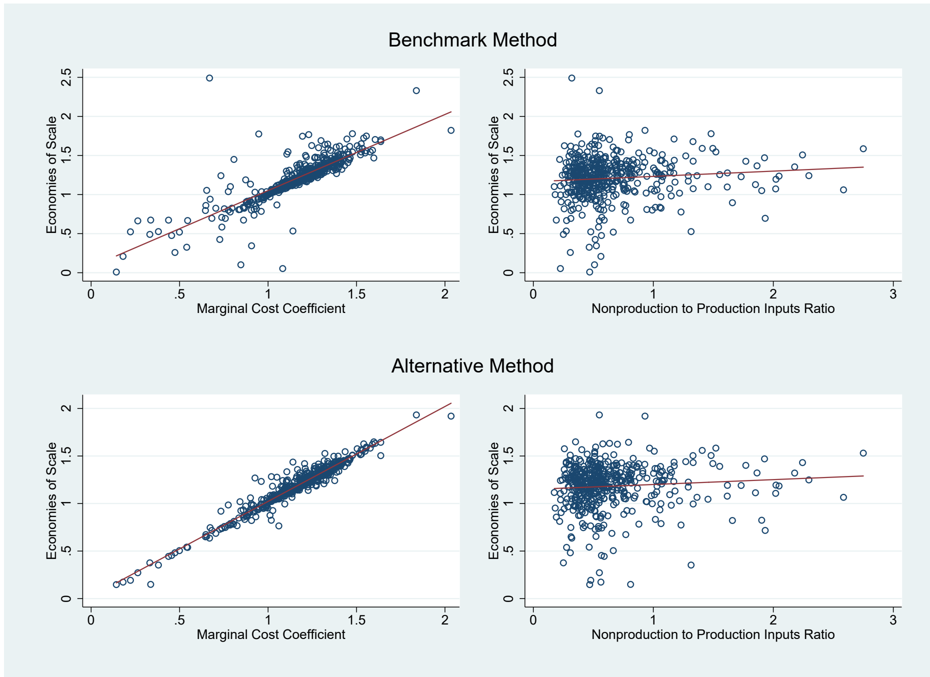

Figure 1.2: Estimated Economies of Scale, Sloping Marginal Costs, and Nonproduction Costs

Notes: The red lines are the fitted values by using OLS regressions. The median standard errors of the benchmark and alternative estimates of economies of scale are 0.118 and 0.078, respectively. The median standard errors of the benchmark and alternative estimates of marginal cost coefficients are 0.082 and 0.199, respectively. The median standard errors of the benchmark and alternative estimates of ratio of nonproduction to production costs is 0.013.

The data show that the important pattern is the wide range of economies of scale and marginal costs rather than it of nonproduction costs. Figure 1.2 illustrates the estimated cost structures for each industry, which shows significant heterogeneity of cost structure across narrowly defined industries. Economies of scale have a weaker positive relationship to nonproduction input ratios than to the marginal cost coefficients. These patterns imply that sloping marginal cost curves are important to understanding economies of scale.

Two groups of industries, LEOS and SEOS, are defined as follows. An industry in LEOS significantly exhibits economies of scale: γ_R is larger than one at 1 % significance level for each regression method (instrumented vs uninstrumented $\times$ benchmark vs alternative). The SEOS industries form the remainder. Table reports the lists of six-digit NAICS industries for the four methods.

Table 1.1: Estimated Cost Structures

	Total			SEOS			LEOS		
	Mean	Median	Median s.e.	Mean	Median	Median s.e.	Mean	Median	Median s.e.
Panel A: Uninstrumented GMM									
Benchmark: Equation (1.29)									
$\frac{\text{NPCOST}}{\text{PCOST}}$	0.692	0.549	0.013	0.709	0.567	0.012	0.674	0.535	0.013
γ_R	1.124	1.160	0.118	0.962	0.995	0.165	1.381	1.355	0.081
$\gamma_{y,R}$	0.989	1.058	0.051	0.889	1.005	0.090	1.145	1.137	0.039
α	1.068	1.113	0.082	0.923	1.017	0.098	1.303	1.285	0.067
Alternative: Equations (1.30) and (1.31)									
$\frac{\text{NPCOST}}{\text{PCOST}}$	0.692	0.549	0.013	0.751	0.590	0.014	0.625	0.516	0.012
γ_R	1.101	1.194	0.078	0.903	0.987	0.116	1.325	1.297	0.063
$\gamma_{y,R}$	0.901	0.965	0.088	0.729	0.755	0.108	1.095	1.125	0.060
α	1.177	1.051	0.199	0.868	0.717	0.198	1.436	1.266	0.200
Panel B: Instrumented GMM									
Benchmark: Equation (1.29)									
$\frac{\text{NPCOST}}{\text{PCOST}}$	0.692	0.549	0.013	0.759	0.590	0.014	0.626	0.519	0.013
γ_R	1.347	1.237	0.153	1.259	1.029	0.229	1.500	1.390	0.094
$\gamma_{y,R}$	1.170	1.084	0.068	1.038	1.002	0.105	1.217	1.166	0.044
α	1.135	1.157	0.102	0.991	1.031	0.113	1.401	1.347	0.087
Alternative: Equations (1.30) and (1.31)									
$\frac{\text{NPCOST}}{\text{PCOST}}$	0.692	0.549	0.013	0.799	0.590	0.014	0.622	0.519	0.011
γ_R	1.171	1.265	0.071	0.845	0.926	0.134	1.387	1.350	0.071
$\gamma_{y,R}$	1.006	1.076	0.069	0.763	0.735	0.093	1.171	1.159	0.054
α	1.280	1.254	0.198	0.943	0.800	0.362	1.456	1.339	0.178

Notes: An industry in LEOS exhibits economies of scale at 1 % significance level. The SEOS industries form the remainder. In Panel B, the regression uses GMM with the demand side instruments to estimate cost structure. (See Appendix B.2.4 for the details.) All results are weighted by using the over-time average of industry's fraction of unfiltered nominal value of shipments: $\text{weight}^s_{PY} = (1/T)[\sum_t (P^s_t Y^s_t / \sum_{s'} P^{s'}_t Y^{s'}_t)]$. Table C.2 reports the weighted results. See Table C.11 for the results for each six-digit NAICS industry.

Table 1.2: Estimation Results: Correlation among Cost Structures

	Panel A: Uninstrumented GMM						Panel B: Instrumented GMM					
	Benchmark			Alternative			Benchmark			Alternative		
	γ_R	$\gamma_{y,R}$	α	γ_R	$\gamma_{y,R}$	α	γ_R	$\gamma_{y,R}$	α	γ_R	$\gamma_{y,R}$	α
Benchmark: Equation (1.29)												
$\gamma_{y,R}$	0.794	1.000					0.783	1.000				
	(453)	(458)					(441)	(450)				
α	0.898	0.788	1.000				0.785	0.798	1.000			
	(461)	(458)	(466)				(447)	(450)	(461)			
Alternative: Equations (1.30) and (1.31)												
γ_R	0.885	0.763	0.946	1.000			0.686	0.668	0.815	1.000		
	(461)	(458)	(466)	(466)			(447)	(450)	(461)	(464)		
$\gamma_{y,R}$	0.720	0.624	0.684	0.715	1.000		0.563	0.526	0.647	0.737	1.000	
	(461)	(458)	(466)	(466)	(466)		(447)	(450)	(460)	(462)	(463)	
α	0.673	0.576	0.635	0.665	0.922	1.000	0.458	0.426	0.494	0.598	0.808	1.000
	(399)	(396)	(401)	(401)	(401)	(401)	(374)	(379)	(383)	(385)	(385)	(385)
$\frac{\text{NPCOST}}{\text{PCOST}}$	0.112	0.023	0.146	0.106	-0.229	-0.245	-0.024	-0.097	0.008	-0.017	-0.218	-0.209
	(461)	(458)	(466)	(466)	(466)	(401)	(447)	(450)	(461)	(464)	(463)	(385)

Notes: The table reports Spearman's rank correlation coefficients rather than Pearson correlation coefficients. Thus, the results are invariant to positive monotonic transformation of the variables. The correlations are among the estimates with non-negative values. The numbers of observations are in parentheses.

Table 1.1 reports the estimated cost structures for each industry based on the benchmark and alternative methods. Even though the alternative estimation follows [Basu and Fernald, 1997], Table 1.1 indicates statistically significant economies of scale in overall manufacturing industries, which is contrary to the findings in [Basu and Fernald, 1997] and [Basu et al., 2006] based on two-digit SIC industry level estimations. (See Table C.2 for the unweighted results.) The result is robust on instrumented and un-instrumented regressions. The reason for the difference between the results in the table and those of [Basu and Fernald, 1997] and [Basu et al., 2006] is that the NBER CES database tends to yield larger economies of scale estimates than the KLEM data does in [Basu and Fernald, 1997] and [Basu et al., 2006].[11]

In Table 1.1, LEOS industries do not tend to have a higher ratio of nonproduction input to production input than SEOS industries even though LEOS industries exhibit larger economies of scale than SEOS industries. However, marginal cost coefficients of LEOS industries are greater than SEOS industries robustly, which implies that marginal costs are quantitatively more important than nonproduction costs as sources of economies of scale.[12] The Spearman's rank correlation coefficients in Table 1.2 support these results. The marginal coefficients are strongly correlated with economies of scale, but, the nonproduction to production input ratios are not.

1.6 Conclusion

A long stream of papers has stressed the importance of economies of scale (or returns to scale) but does not pay attention to their sources in macroeconomics and international economics. This chapter provides a method to estimate economies of scale and decompose them into sloping marginal cost curves and nonproduction costs. We use narrowly defined industry-level data to show which source mainly derive economies of scale. We found that the industries' slope of the marginal cost curve is more strongly correlated to their economies of scale than nonproduction costs are. This chapter is not arguing that nonproduction costs play no part in generating economies of scale in an economy. We suggest that a multi-industry model with economies of scale needs the different slopes across industries that is empirically plausible.

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[11] See [Basu et al., 2006] and [Chang and Hong, 2006] for the difference between results based on KLEM and NBER CES database. They report estimated returns to scale and utilization parameters for two-digit manufacturing industries: Table 1 in [Basu et al., 2006] and Table 5 in [Chang and Hong, 2006]. [Chang and Hong, 2006] follow [Basu et al., 2006]'s estimation method, but their estimates tend to be larger than estimates in [Basu et al., 2006].

[12] These patterns hold after controlling for durables and non-durables.

Chapter 2

ECONOMIES OF SCALE AND INDUSTRIAL INTERNATIONAL BUSINESS CYCLE

2.1 Introduction

Canonical new trade models and open macro models such as [Krugman, 1979, Krugman, 1980], [Melitz, 2003], and [Ghironi and Melitz, 2005] do not take an interest in their origins determined by fixed and marginal costs even though they have long recognized the importance of economies of scale.[1] Because of modeling tractability, they use a linear cost function. Thus, fixed costs solely generate economies of scale because the firm's marginal costs of production do not depend on how much it produces. This flat marginal cost curve causes the domestic and export profits to be linearly separable. Thus, the individual firm's decisions in an export market are independent of their decisions in a domestic market, and vice versa. However, recent international trade studies such as [Vannoorenberghe, 2012], [Soderbery, 2014], [Berman et al., 2015], and [Almunia et al., 2018] cast doubt on the firm-level separability of two markets and document the within-firm level interdependence between the markets.[2] They give evidence for the necessity of sloping marginal cost curves.

This chapter investigates their role in international business cycles empirically and theoretically. That is where the paper attempts to make a contribution.

The key feature of this chapter, sloping marginal cost curve, is important for the generation and propagation of international business cycles through intensive and extensive margins. First, the sloping marginal

[1] A wide range of international trade literature such as [Tybout, 1993], [Harrigan, 1994], and [Antweiler and Trefler, 2002] study empirical patterns between economies of scale and trade. They conclude that introducing economies of scale contribute to a better understanding of international trade. However, they are not interested in a source of economies of scale, too.

[2] Their results, especially the direction of the relationship, are rather mixed. First, [Berman et al., 2015] conclude that an exogenous increase in foreign sales causes increases in domestic sales in French data. [di Giovanni et al., 2016] document that internationally connected firms generate a positive relationship between an individual firm and the foreign economy. In contrast, some papers find that sales access markets are substitutes. [Vannoorenberghe, 2012] constructs a [Melitz, 2003] type trade model with increasing marginal cost to explain firm-level volatilities. [Soderbery, 2014] and [Rho and Rodrigue, 2016] assume constant returns to scale with capacity constraints, which induces increasing marginal costs in the short run. Both at the theoretical and empirical levels, the relationship between exports and domestic sales is not clear-cut. The empirical findings of industry heterogeneity of slope of the marginal cost curves suggest complementary relationships for some industries and substitute relationships for some industries.

cost curve endogenously generates the within-firm interdependence between domestic and export markets, which contributes aggregate comovements across countries. For example, a firm exports more during a foreign boom because of its high demand. If the firm faces a decreasing marginal cost curve, the fall in marginal costs by the increase in exports will augment its supply and profit but decrease its price in the domestic market. Thus, the downward (upward) sloping marginal cost curve generates positive (negative) within-firm market interdependence between domestic and export markets. Second, the sloping marginal cost curve also plays a crucial role in extensive margins of exports. A sloping marginal cost curve generates efficiency gains or losses from exporting. Fixed export costs force less productive firms not to export. A firm with a flat marginal cost curve only exports when its profit (excluding fixed export costs) in the export market is higher than the fixed export cost because its domestic market profits are linearly separable to the export market profits, and vice versa. However, export gains or losses arising from a sloping marginal cost curve cause this rule to fail. When marginal costs are decreasing in an individual firm's production level, some firms export even if their profit in the export market is negative, because their export gains from lower marginal costs increase profits in the domestic market. Conversely, increasing marginal costs cause some firms to forgo entry in the export market despite positive export market profits.

This chapter finds empirical evidence that sloping marginal costs curves are more closely related to different properties of international business cycles across industries than nonproduction costs are. To show them, this research uses the estimates of the cost structures in Chapter 1. In industries with decreasing marginal costs, (i) output is more volatile while imports and exports are less so, and (ii) output, imports, and exports are all more correlated with aggregate GDP than in industries with increasing marginal costs. However, it is hard to find a statistically robust association between the industrial international business cycle and economies of scale derived from the nonproduction costs.

The empirical findings in Sections 1.5 and 2.2 addresses the following question whether economies of scale arise from sloping marginal cost curves and their heterogeneity across industries can account for industrial and aggregate international business cycles. With this question in mind, Section A.1 constructs a two-country two-industry dynamic stochastic general equilibrium model with industry heterogeneity of cost structure along the line of the new trade open economy macroeconomic model introduced by [Ghironi and Melitz, 2005]: monopolistic competition with endogenous entry and heterogeneous firms with an endogenous export decision. The monopolistically competitive market allows downward sloping marginal cost curves and fixed costs. The distinct feature of the model is allowing different curvature and intercept of cost curves across industries.

In terms of aggregate and industrial international business cycle properties, there are two attractive features of the model generated by the within-firm market interdependence and export gains/losses that arise from the sloping marginal cost curves. While holding the aggregate marginal cost curve flat, the benchmark model with different sloping marginal cost curves performs better than the conventional model with same flat marginal cost curves across industries to match observed strongly positive cross-country comovements of GDP and labor. Also, the model qualitatively performs well at matching the observed heterogeneous patterns of international business cycles across industries.

In my benchmark model, different slopes of the marginal cost curves endogenously generate heterogeneous properties of business cycles across industries. There are two industries, upward sloping marginal cost curve (UMC) and downward sloping marginal cost curve (DMC), in the home and foreign countries. Thus, the DMC industry faces larger economies of scale when both industries have the same nonproduction costs.[3] Suppose that a home favorable productivity shock is realized. The following two mechanisms propagate the shock. The first channel is through intensive margins by economies of scale arose from sloping marginal cost curve. An expanded domestic market increases the size of home firms, which decreases marginal costs in the DMC industry but increases marginal costs in the UMC industry. The home DMC and UMC industries face cost advantages and disadvantages, respectively. Also, the DMC industry becomes more profitable than the UMC industry. Thus, output and exports are more procyclical in the home DMC industry than in the home UMC industry. The second channel is through extensive export margins by export gains and losses. The DMC industry has export gains, but there are export losses in the UMC industry. The gains and losses are more important in the foreign country than in the home country because of the small domestic market and profits in the foreign country. Thus, an individual foreign firm is more willing to export in the DMC industry to enjoy large export gains. That causes industry reallocations from the UMC to DMC industry in the foreign country: more firms and exporters in the foreign DMC industry. In contrast, the home country is concentrated and exports more than before in the UMC industry. In sum, that channel generates less procyclical output and exports in the home DMC industry than in the home UMC industry, which is the opposite to the first.

[3]UMC and DMC generate diseconomies of scale and economies of scale, respectively. To focus on the marginal cost structure, the model assumes identical fixed costs structure across industries. For convenience, the model assumes decreasing and increasing marginal cost curve. A relatively negative slope of the marginal cost curve for the DMC industry is enough, for example, a constant and positive slope for DMC and UMC, respectively.

Sections 2.3 and 2.5 conclude that industrial international business cycle properties of the model crucially depend on a speed of firm entries because they determine the relative size of the propagation mechanisms in the previous paragraph. In the long run, the first channel disappears because the continuing entry of firms cause the firm size to be determined by entry costs. During a home boom, large profits in the DMC industry promote firm entries, which increase the number of firms although this increases slowly over time. A large number of firms implies the declines in individual firm's output (size), so cost advantages shrink in the home DMC industry. Thus, a substantial level of friction in firm entry – slow changes in the number of firms – makes the first channel strong relative to the second channel. Hence, the relative size of the channel hinges on the firm entry friction quantitatively. Under empirically plausible parameters, the first channel is larger than the second channel. Thus, output, exports, and imports are more procyclical in industries with decreasing marginal costs than in industries with increasing marginal costs.

Further implications of introducing different slope of marginal cost curves pertain to international business cycle comovement. [Backus et al., 1992] point out international real business cycle models generate significantly low comovements that are empirically implausible.[4] A large number of studies have introduced various structures to bridge the gap between model predictions and empirical patterns.[5] This is where this paper attempts to make a contribution in international business cycle research.

While holding the aggregate marginal cost curve flat, the benchmark model reproduces stronger cross-country output correlations than a model with a homogenous flat marginal cost curve across industries does. A downward sloping marginal cost curve generates positive within-firm market interdependence between domestic and export markets. In other words, domestic and export sales are complements for individual firms, which implies more strongly positive output comovements across countries. Thus, the DMC industry contributes to mitigating the quantity anomaly. In contrast, there is negative within-firm market interdependence in UMC industry. Thus, it lowers (aggregate-level) cross-country output comovements that worsen the quantity anomaly. Section 2.5.1 calibrates parameters that the aggregate level marginal cost curve is flat,

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[4]See [Ambler et al., 2004] for the recent international business cycle empirical findings related to the quantity anomaly. See [Rebelo, 2005] for low comovements across multi-regions. [Fattal-Jaef and Lopez, 2014] show that the quantity anomaly is robust in new trade open macro models.

[5]For example, [Heathcote and Perri, 2002] and [Kehoe and Perri, 2002] investigate the role of capital market structures in international co-movements. [Baxter and Farr, 2005] and [Ambler et al., 2002] introduce factor utilization and intermediate goods to generate strong positive cross-country output correlations, respectively. [Head, 2002] investigates impacts of national and international returns to scale on business cycle comovements. Recently, [Bhattarai and Kucheryavyy, 2018] study various externalities and their impacts on international comovements in a wide range of general equilibrium models.

and two industries have the same size. Does the UMC industry's negative impact exactly offset the positive impact of the DMC industry on business cycle output comovements? The answer is no. Because of export gains and losses, the DMC industry's volume of trade is larger than that of the UMC industry. Thus, the positive within-firm market interdependence in DMC industry is quantitatively more massive than the UMC industry's negative within market interdependence.[6] Hence, the model generates positive aggregate level within-firm interdependence despite its aggregate marginal cost curve being flat.

This chapter is organized as follows. Section 2.2 applies the estimates in Chapter 1 to understand relationships between industry-level cost structures and international business cycles. Section 2.3 investigates an individual firm's problem with a sloping marginal cost curve and illustrate the analytical mechanism behind the results of the following sections. Section A.1 develops a two-industry two-country dynamic stochastic general equilibrium model based on Section 2.3. Section 2.5 presents a quantitative analysis of international trade and macro dynamics. These results guide the interpretation of international business cycles associated with cost structures and their heterogeneity. The last section concludes.

2.2 The International Business Cycle of the U.S. Manufacturers

To investigate the international business cycle of the U.S. Manufacturers, variables are detrended with the conventional ways of real business cycle literature: [Hodrick and Prescott, 1997]'s high-pass filtered cyclical components of logarithmic annual output, export, and import data. All variables are real valued. Also, the HP filtered with a various range of smoothing parameter, the growth rate of the variable minus its average are considered to check robustness. The results are robust to the choice of them.[7] NBER-CES manufacturing industry database does not provide international trade flows. They are corrected from [Schott, 2008]'s annual data that is available from 1989. See Appendix B for the details.

For each industry, its volatility and cyclicality of output, exports, and imports are defined by the conventional way. The volatility of output is measured by standard deviations of the cyclical components of outputs from 1958 to 2011 in terms of percentage. The volatilities of exports and imports are measured by standard deviations of cyclical components of them relative to standard deviations of cyclical components

[6]The theoretical prediction is also consistent with the data. The ratio of trade volume to an output of the U.S. manufacturing industries tends to increase with economies of scale and a sloping marginal cost curve coefficient (the inverse of marginal cost curve slope).

[7]We set the smoothing parameter to be 6.25, 100, and 400 that are widely used for annual frequency business cycle studies.

of industry output from 1989 to 2011.[8] Cyclicalities are measured by Pearson correlation coefficients to aggregated cyclical components of outputs of manufacturing industries. Alternatively, Pearson correlation to cyclical components of real GDP is used.[9]

2.2.1 *Descriptive Evidence: International Business Cycles Vary with Industry Cost Structure*

To show how international business cycles vary with economies of scale, we classify industries into two-by-two categories. First, SEOS and LEOS industries are defined by using estimated EOS by benchmark OLS as in Section 1.5. LEOS and SEOS industries represent industries with large and small economies of scale, respectively. The second classification is durable and nondurable industries.[10] A wide range of empirical research has reported that durables exhibit larger returns to scale than nondurables, which is consistent with my results. Also, durables are more pocyclical than nondurables.[11] For these reasons, we introduce the two-by-two classification to check counterfactuals. Roles of economies of scale do not depend on the type of goods industries produce.

LEOS is more trade intensive than SEOS because economies of scale motivate export by decreasing average costs. Define the output and trade share of each group as follows. Let x_t^s be the nominal value of shipments or the trade volume (exports plus imports) in industry s in year t. Then, for group $=$ SEOS and LEOS,

$$\text{Share of group} = \frac{1}{T}\sum_t \sum_{s\in\text{group}} \text{weight}_{x,t}^s, \tag{2.1}$$

where $\text{weight}_{x,t}^s = P_t^s x_t^s / (\sum_{s'\in\text{Total}} P_t^{s'} x_t^{s'})$. Figure 2.1 illustrates that the trade shares are larger than the output shares. On average, the output shares of SEOS and LEOS are 0.615 and 0.385, respectively. But, the trade shares of SEOS and LEOS (based on the benchmark method) are 0.510 and 0.490, respectively.[12]

[8] NBER CES data cover 1958 – 2011, but exports and imports data by [Schott, 2008] (and his update) start in 1989. When we calculate relative standard deviations of trade flows, we use standard deviations of the cyclical deviations of outputs with the same sample periods (1989 – 2011).

[9] We measure cyclicalities of output by using the data from 1958 – 2011. When we calculate cyclicalities of exports and imports, we use filtered output or real GDP in the sample periods 1989 – 2011 because my trade flow data start in 1989. Different sample periods generate different HP filtered output and real GDP series. However, the difference from choosing the periods has no significant impact on my all results.

[10] See Table C.10 for the NAICS code for durables and nondurables.

[11] See [Stock and Watson, 1999] for the literature review.

[12] By using the alternative method, the output shares of SEOS and LEOS are 0.464 and 0.536, respectively. But, the trade shares of SEOS and LEOS are 0.531 and 0.469, respectively.

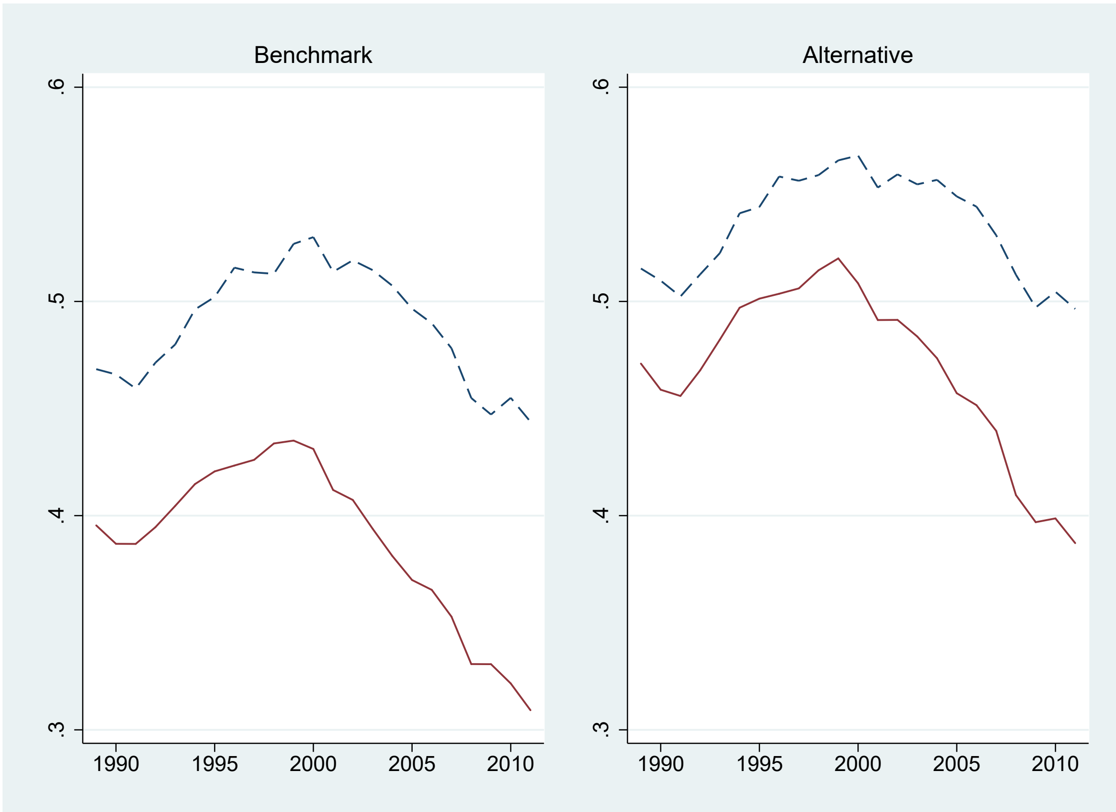

Figure 2.1: Output and Trade Shares of Industries with Economies of Scale

Notes: The red lines and the blue dashed lines are the output and trade (exports plus imports) share of LEOS industries in the total, respectively.

Thus, LEOS industries are more trade intensive than SEOS industries. After 2000, LEOS industries have shrunk in terms of both output and trade. However, the key pattern does not change over time. The trade shares of LEOS industries are consistently larger than their output shares.

Tables 2.1 and 2.2 summarize the U.S. industry-level volatility and cyclicality of output, exports, and imports for each group and in total. There are 273 durable and 194 non-durable industries, of which durables have larger economies of scale than non-durables. Among 228 LEOS industries, 69 are non-durable and 159 are durable. As in the previous empirical literature, relative standard deviations of exports and imports relative to output are larger than one: the trade flows are more volatile than outputs. Exports and imports are

Table 2.1: Summary Statistics: Volatility

		Total			SEOS			LEOS		
		output	export	import	output	export	import	output	export	import
					Panel A: HP-filtered series					
Nondurable	mean	4.758	2.218	2.231	4.254	2.417	2.452	6.782	1.349	1.390
	median	4.309	1.777	1.748	3.733	1.836	1.840	6.063	1.273	1.152
	obs.	194	149	149	120	97	97	69	48	48
Durable	mean	8.015	1.797	1.844	7.291	1.998	2.203	8.648	1.641	1.563
	median	7.660	1.305	1.488	7.346	1.394	1.699	7.882	1.200	1.350
	obs.	273	228	228	113	96	96	159	131	131
Total	mean	6.477	1.998	2.029	5.503	2.257	2.357	8.173	1.576	1.525
	median	6.070	1.505	1.617	5.303	1.763	1.748	7.658	1.200	1.276
	obs.	467	377	377	233	193	193	228	179	179
					Panel B: Growth rate					
Nondurable	mean	8.041	2.369	2.227	7.147	2.601	2.473	11.609	1.408	1.262
	median	7.605	1.738	1.731	6.278	2.444	1.978	10.784	1.238	1.127
Durable	mean	12.615	1.886	1.869	11.535	2.086	2.191	13.561	1.731	1.619
	median	11.938	1.313	1.501	10.942	1.401	1.628	12.486	1.260	1.371
Total	mean	10.456	2.117	2.040	8.951	2.404	2.365	13.064	1.659	1.539
	median	9.639	1.489	1.554	8.676	1.778	1.739	12.463	1.257	1.276

Notes: The numbers of industries in Panel B are equal to the numbers in Panel A. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). Unweighted results are reported in Appendix C (Table C.3). Volatilities of output are measured by standard deviations in terms of percentage. Volatilities of imports and exports are measured by standard deviations relative to output.

both procyclical, although imports are more strongly so.

The differences between SEOS and LEOS industries give a rough indication of how industry macro and trade dynamics vary with economies of scale. LEOS industries tend to have more volatile output but less

Table 2.2: Summary Statistics: Cylicality

		Total			SEOS			LEOS		
		output	export	import	output	export	import	output	export	import
					Panel A: HP-filtered series					
Nondurable	mean	0.348	0.158	0.382	0.323	0.092	0.337	0.459	0.367	0.531
	median	0.306	0.171	0.427	0.227	0.124	0.260	0.470	0.395	0.505
	obs.	194	149	149	120	97	97	69	48	48
Durable	mean	0.554	0.393	0.549	0.486	0.289	0.507	0.613	0.474	0.581
	median	0.652	0.445	0.612	0.554	0.283	0.583	0.681	0.541	0.649
	obs.	273	228	228	113	96	96	159	131	131
Total	mean	0.512	0.311	0.530	0.390	0.167	0.402	0.574	0.451	0.570
	median	0.512	0.311	0.530	0.404	0.171	0.428	0.655	0.521	0.625
	obs.	467	377	377	233	193	193	228	179	179
					Panel B: Growth rate					
Nondurable	mean	0.360	0.156	0.369	0.334	0.091	0.319	0.469	0.366	0.549
	median	0.342	0.186	0.334	0.332	0.163	0.226	0.476	0.392	0.544
Durable	mean	0.532	0.363	0.523	0.467	0.256	0.470	0.588	0.448	0.565
	median	0.615	0.372	0.572	0.519	0.210	0.539	0.641	0.501	0.608
Total	mean	0.451	0.264	0.450	0.388	0.154	0.376	0.558	0.430	0.561
	median	0.501	0.293	0.512	0.369	0.163	0.376	0.635	0.473	0.601

Notes: The numbers of industries in Panel B is equals to the numbers in Panel A. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). Unweighted results are reported in Appendix C (Table C.4). Cyclicalities are correlations to the aggregated business cycle component of outputs that is the average of individual industry's business cycle component of the real value of shipments, which is weighted by using the unfiltered real output share in each year.

volatile export and import flows than do SEOS industries. Output, export, and import are more strongly correlated to aggregate GDP in LEOS industries than in SEOS industries. After considering durables and non-durables, these patterns hold generally in Tables 2.1 and 2.2. Moreover, these patterns are robust on the estimation methods.

2.2.2 *Methodology*

For more accurate investigation of the statistical relation between industrial international business cycles and industry cost structures, we consider regressions as follows. To investigate the net impacts of each source of economies of scale – sloping marginal costs and nonproduction costs –, we consider the following relations.[13] For s industry,

$$\ln \mathrm{EOS}^s \approx \ln \alpha^s + \ln \left(1 + \frac{\mathrm{PCOST}^s}{\mathrm{NPCOST}^s}\right). \tag{2.2}$$

Economies of scale derived from marginal and nonproduction costs are defined by $\widetilde{\mathrm{EOS}}^s_{MC} = \ln \alpha^s$ and $\widetilde{\mathrm{EOS}}^s_{NC} = \ln(1 + \mathrm{NPCOST}^s/\mathrm{PCOST}^s)$, respectively. Let bc^s_y, bc^s_{ex}, and bc^s_{im} be a measure of volatility or cyclicality for output, exports, and imports, respectively. The three regression equations are

$$\mathrm{bc}^s_r = (\mathbf{x}^s)^{\mathrm{T}} \mathbf{b}_r + \epsilon^s_r \quad \text{where } r = y, ex, im. \tag{2.3}$$

The vector of coefficients corresponding to independent variables $\mathbf{x}^s$ is $\mathbf{b}_r$.[14] As regressors, their vector is denoted by $\mathbf{b}_r$, we consider the cost structure parameters: $\widetilde{\mathrm{EOS}}^s_{MC}$, $\widetilde{\mathrm{EOS}}^s_{NC}$, and ε^s. Also, goods classifications are considered as follows. First, the durable dummy variable is one ($D^s = 1$) if s industry produces durable goods. It is zero ($D^s = 0$) if s is a non-durable industry. We divide manufacturing industries into non-durables.[15] Second, we use the ratio of material costs to the value of shipments, denoted by θ^s_m, as an indicator of intermediate and final goods industries. In the following sections, this research focuses on coefficient estimates on economies of scale derived from the sloping marginal cost curve and the nonproduction costs. We leave these issues related to coefficient estimates on other regressors.

As Section 2.2.1 has mentioned, the cost structure characteristics of durable and nondurable industries are significantly different. It is possible that the impacts of industry characteristics on the business cycle

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[13] There are two ways to obtain the decomposition of economies of scale into marginal and nonproduction costs. First, in Equation (1.6), the firm level economies of scale with tiny profits. Second, the industry level economies of scale ignoring the entry friction effects in Equation (1.28).

[14] I use the seemingly unrelated regression equations (SURE) method with three equations for each industry because ϵ^s_y, ϵ^s_{ex}, and ϵ^s_{im} are highly correlated. Breusch-Pagan test of independent equations is rejected at the 1 % significant level. However, the SURE estimations are numerically identical to the equation by equation estimations because the the covariates are the same for each equation.

[15] See Table C.10 for the NAICS code for durables and nondurables.

patterns are not identical. Thus, the regression coefficients would be different. To test this hypothesis, we use the product of the durable dummy and each regressor.

2.2.3 Estimation Results: International Business Cycles

Tables 2.3 – 2.5 and 2.6 – 2.8 show significant evidence that industry cost-side characteristics play a fundamental role in the volatility and cyclicality of international trade and macroeconomic flows, respectively. All regression results are weighted by the industry size, which is measured by the value of shipments. In Columns (1) – (4), the volatility and cyclicality are measured based on detrended series with HP filter. In Columns (5) – (8), we use the log difference time series (growth rates). The regression in Columns (1) contains only the cost structure variables: $\widetilde{\text{EOS}}_{MC}$, $\widetilde{\text{EOS}}_{NC}$, and $\ln \varepsilon$. In Column (2), we add the share of material costs: $\ln \theta_m$. The regressions in Columns (3) and (4) control for durability of products in addition to the regressions in Columns (1) and (2), respectively.

Tables 2.3, 2.4, and 2.5 present regressions of a volatility (a standard deviation of industry output and trade flows's standard deviations relative to output) on economies of scale from marginal cost coefficient and nonproduction costs. In Table 2.3, the estimated $\hat{b}_1$ in all columns are positive at the 1% significance level. Industries with larger economies of scale derived from a sloping marginal cost curve tend to have more volatile output than industries with smaller economies of scale derived from a sloping marginal cost curve. All columns in Tables 2.4 and 2.5 report that $\hat{b}_1$ is negative at the 5% significance level. Exports and imports are less volatile when industries have large economies of scale from marginal costs. The benchmark regression reported in Column (2) indicates that a one percent increase in economies of scale derived from marginal costs is associated with a 0.73 increase in the industry's standard deviation ($\%$) of output. Further, a one percent increase in economies of scale derived from marginal costs is associated with 0.521% and 0.693% decreases in the relative standard deviations of exports and imports, respectively.

Qualitatively, these association between volatilities and sloping marginal costs are robust on goods classification. According to Column (3), (4), (7), and (8), durable industries have the stronger relationship between the marginal cost coefficients and output volatilities than nondurable industries. $\hat{b}_{1,D}$ is positive at the 1% significance level. The volatilities of exports and imports decrease in economies of scale from sloping marginal costs. These impacts are larger in durables than in nondurables, but it is statistically insignificant.

It is hard to find a clear and robust relationship between nonproduction costs and international business

Table 2.3: Regression Results: Volatility of Output and Market Structures

	Log Percent SD of HP-filtered Series				Log Percent SD of Growth Rates			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
b_1 : $\widetilde{\text{EOS}}_{MC}$	0.762***	0.730***	0.497***	0.465***	0.710***	0.703***	0.501***	0.461***
	(0.079)	(0.069)	(0.084)	(0.083)	(0.073)	(0.068)	(0.083)	(0.081)
$b_{1,D}$: $D \times \widetilde{\text{EOS}}_{MC}$			0.473***	0.581***			0.384***	0.516***
			(0.135)	(0.137)			(0.132)	(0.133)
b_2 : $\widetilde{\text{EOS}}_{NC}$	-0.124	0.177**	-0.313**	-0.378***	-0.032	0.224***	-0.284**	-0.393***
	(0.077)	(0.073)	(0.124)	(0.128)	(0.071)	(0.072)	(0.122)	(0.125)
$b_{2,D}$: $D \times \widetilde{\text{EOS}}_{NC}$			0.611***	0.732***			0.645***	0.847***
			(0.138)	(0.153)			(0.136)	(0.150)
b_3 : $\ln \varepsilon$	-0.092***	-0.092***	-0.077***	-0.139***	-0.081***	-0.083***	-0.068***	-0.118***
	(0.032)	(0.026)	(0.025)	(0.037)	(0.029)	(0.026)	(0.025)	(0.036)
$b_{3,D}$: $D \times \ln \varepsilon$				0.103**				0.073
				(0.050)				(0.049)
b_4 : $\ln \theta_m$		0.684***	0.696***	0.472***		0.581***	0.587***	0.287***
		(0.080)	(0.077)	(0.109)		(0.078)	(0.076)	(0.107)
$b_{4,D}$: $D \times \ln \theta_m$				0.398***				0.555***
				(0.153)				(0.149)
b_5 : Constant	-2.813***	-2.672***	-2.395***	-2.538***	-2.362***	-2.219***	-1.938***	-2.108***
	(0.048)	(0.058)	(0.076)	(0.087)	(0.044)	(0.056)	(0.075)	(0.084)
$b_{5,D}$: D		0.295***	-0.070	0.169		0.208***	-0.164**	0.129
		(0.034)	(0.079)	(0.107)		(0.034)	(0.077)	(0.104)
Observations	351	351	351	351	351	351	351	351
R^2	0.241	0.483	0.527	0.542	0.240	0.414	0.463	0.487

Notes: Robust standard errors are in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). Volatilities are measured by the percent standard deviation of industry's real value of shipments.

Table 2.4: Regression Results: Volatility of Export and Market Structures

	Log Percent SD of HP-filtered Series				Log Percent SD of Growth Rates			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
b_1 : $\widetilde{\text{EOS}}_{MC}$	-0.440***	-0.521***	-0.459***	-0.404**	-0.454***	-0.519***	-0.453***	-0.400**
	(0.130)	(0.136)	(0.174)	(0.169)	(0.131)	(0.137)	(0.175)	(0.171)
$b_{1,D}$: $D \times \widetilde{\text{EOS}}_{MC}$			-0.228	-0.427			-0.251	-0.446
			(0.277)	(0.276)			(0.279)	(0.280)
b_2 : $\widetilde{\text{EOS}}_{NC}$	-0.070	-0.190	-0.377	-0.434*	-0.129	-0.224	-0.457*	-0.495*
	(0.127)	(0.144)	(0.255)	(0.259)	(0.127)	(0.145)	(0.257)	(0.262)
$b_{2,D}$: $D \times \widetilde{\text{EOS}}_{NC}$			0.280	0.372			0.344	0.403
			(0.285)	(0.311)			(0.287)	(0.314)
b_3 : $\ln \varepsilon$	0.074	0.083	0.083	0.351***	0.066	0.072	0.073	0.320***
	(0.052)	(0.052)	(0.052)	(0.074)	(0.052)	(0.052)	(0.053)	(0.075)
$b_{3,D}$: $D \times \ln \varepsilon$				-0.489***				-0.449***
				(0.102)				(0.103)
b_4 : $\ln \theta_m$		-0.270*	-0.290*	-0.033		-0.214	-0.237	0.030
		(0.158)	(0.159)	(0.221)		(0.159)	(0.160)	(0.224)
$b_{4,D}$: $D \times \ln \theta_m$				-0.334				-0.367
				(0.309)				(0.312)
b_5 : Constant	0.547***	0.383***	0.464***	0.754***	0.616***	0.485***	0.587***	0.869***
	(0.078)	(0.114)	(0.157)	(0.175)	(0.079)	(0.114)	(0.158)	(0.177)
$b_{5,D}$: D		0.080	-0.036	-0.466**		0.065	-0.082	-0.503**
		(0.068)	(0.162)	(0.216)		(0.068)	(0.163)	(0.219)
Observations	351	351	351	351	351	351	351	351
R^2	0.042	0.053	0.057	0.119	0.045	0.052	0.057	0.110

Notes: Robust standard errors are in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). The relative standard deviation of business cycle components of industry's real exports is relative to the business cycle components of industry's real value of shipments during the equal sample periods.

Table 2.5: Regression Results: Volatility of Import and Market Structures

	Log Percent SD of HP-filtered Series				Log Percent SD of Growth Rates			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
b_1 : $\widetilde{\text{EOS}}_{MC}$	-0.511***	-0.693***	-0.576***	-0.536***	-0.517***	-0.687***	-0.538***	-0.495***
	(0.128)	(0.130)	(0.165)	(0.163)	(0.126)	(0.129)	(0.164)	(0.162)
$b_{1,D}$: $D \times \widetilde{\text{EOS}}_{MC}$			-0.261	-0.408			-0.323	-0.476*
			(0.264)	(0.267)			(0.262)	(0.265)
b_2 : $\widetilde{\text{EOS}}_{NC}$	-0.111	-0.422***	-0.249	-0.289	-0.147	-0.408***	-0.158	-0.176
	(0.124)	(0.137)	(0.243)	(0.250)	(0.123)	(0.136)	(0.241)	(0.248)
$b_{2,D}$: $D \times \widetilde{\text{EOS}}_{NC}$			-0.204	-0.140			-0.302	-0.278
			(0.272)	(0.300)			(0.269)	(0.298)
b_3 : $\ln \varepsilon$	0.129**	0.149***	0.143***	0.338***	0.131***	0.149***	0.140***	0.322***
	(0.051)	(0.050)	(0.050)	(0.072)	(0.050)	(0.049)	(0.049)	(0.071)
$b_{3,D}$: $D \times \ln \varepsilon$				-0.357***				-0.330***
				(0.098)				(0.098)
b_4 : $\ln \theta_m$		-0.700***	-0.710***	-0.520**		-0.588***	-0.599***	-0.380*
		(0.151)	(0.151)	(0.214)		(0.149)	(0.150)	(0.212)
$b_{4,D}$: $D \times \ln \theta_m$				-0.251				-0.316
				(0.299)				(0.296)
b_5 : Constant	0.627***	0.235**	0.131	0.345**	0.646***	0.296***	0.149	0.368**
	(0.077)	(0.108)	(0.150)	(0.169)	(0.076)	(0.107)	(0.149)	(0.168)
$b_{5,D}$: D		0.147**	0.281*	-0.035		0.161**	0.351**	0.021
		(0.064)	(0.155)	(0.209)		(0.064)	(0.153)	(0.208)
Observations	351	351	351	351	351	351	351	351
R^2	0.070	0.132	0.136	0.169	0.075	0.125	0.132	0.163

Notes: Robust standard errors are in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). The relative standard deviation of business cycle components of industry's real imports is relative to the business cycle components of industry's real value of shipments during the equal sample periods.

cycles. Impacts of nonproduction costs on industrial business cycles depend on industry goods classification. $\hat{b}_2$ in all Tables 2.3, 2.4, and 2.5 indicates the estimates for economies of scale derived from nonproduction costs. Only some $\hat{b}_2$ in Columns (1) – (2) and (5) – (6) of Tables are statistically significant. However, these results are not robust after controlling for the ratio of value added to output and the nondurable vs durable. Many $\hat{b}_2$ in Columns (3) – (4) and (7) – (8) are insignificant at the 10% level. When they are significant, the nondurable and durable industries have different signs of coefficients in Tables 2.3 and 2.5: $\hat{b}_2$ and $\hat{b}_1 + \hat{b}_{2,D}$. According to Columns (4), (7), and (8) in Table 2.4, $\hat{b}_2$ is negative, but $\hat{b}_1 + \hat{b}_{2,D}$ is zero at the 10% significance level.

Tables 2.6, 2.7, and 2.8 display the relationship between cost structure and cyclicality. As a measurement of cyclicality for each industry, we use correlation to the aggregated business cycle component of outputs that is the average of individual industry's business cycle component of the real value of shipments, which is weighted by using the unfiltered real output share in each year. Tables C.5, C.6, and C.7 reports the results with the alternative cyclicality measure: the correlation to the business cycle component of real GDP.

According to all Tables 2.6, 2.7, and 2.8, industrial output, exports, and imports are strongly correlated with aggregate GDP when industries have large economies of scale derived from marginal costs. In Columns (1) – (8), the estimated coefficients $\hat{b}_1$ are significantly positive at the 1% level. The benchmark results are reported in Column (2). A 1% increases in economies of scale derived from sloping marginal costs are associated with 0.229, 0.369, and 0.261 increases in correlations of industry output, exports, and imports with aggregate GDP, respectively. To check the robustness of the regression results, the section investigates impacts of non-durables and durables on my benchmark regression coefficients. Columns (3) – (4) and (7) – (8) illustrate the robustness of impacts of cost structure on industry-level international business cycles for durable and nondurable industries. In all cases, $\hat{b}_{1,D}$ is statistically zero at the 10% significance level. Thus, my previous results showing, the impacts of economies of scale from marginal costs on volatility and cyclicality of macroeconomic and trade flows, are robust.

We consider impacts of nonproduction costs on cyclical patterns of output, exports, and imports. According to Columns (1) – (2) and (5) – (6) in Tables 2.6, 2.7, and 2.8, associations between nonproduction costs and cyclicality of output, exports, and imports tend to be statistically negative or zero. However, after controlling for different slopes between nondurable and durable industries, the impacts in nondurable industries, represented by the coefficients $\hat{b}_2$, are statistically positive or zero. However, the impacts of non-production inputs on cyclicalities of outputs and imports in durable industries, represented by the sum of

Table 2.6: Regression Results: Cyclicality of Output and Market Structures

		Correlation to the Aggregated Business Cycle Component of Outputs							
		HP-filtered Series				Growth Rates			
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
b_1	: $\widetilde{\text{EOS}}_{MC}$	0.217***	0.229***	0.285***	0.287***	0.205***	0.226***	0.304***	0.302***
		(0.055)	(0.057)	(0.069)	(0.069)	(0.049)	(0.052)	(0.063)	(0.063)
$b_{1,D}$	: $D \times \widetilde{\text{EOS}}_{MC}$			-0.001	-0.002			-0.065	-0.055
				(0.111)	(0.114)			(0.101)	(0.103)
b_2	: $\widetilde{\text{EOS}}_{NC}$	-0.417***	-0.333***	0.137	0.186*	-0.392***	-0.333***	0.127	0.152
		(0.053)	(0.060)	(0.102)	(0.107)	(0.048)	(0.055)	(0.093)	(0.097)
$b_{2,D}$	: $D \times \widetilde{\text{EOS}}_{NC}$			-0.636***	-0.725***			-0.615***	-0.661***
				(0.114)	(0.128)			(0.103)	(0.116)
b_3	: $\ln \varepsilon$	-0.043*	-0.045**	-0.053**	-0.095***	-0.049**	-0.052***	-0.061***	-0.095***
		(0.022)	(0.022)	(0.021)	(0.031)	(0.020)	(0.020)	(0.019)	(0.028)
$b_{3,D}$	: $D \times \ln \varepsilon$				0.083**				0.064*
					(0.042)				(0.038)
b_4	: θ_m		0.190***	0.206***	0.250***		0.134**	0.145**	0.153*
			(0.066)	(0.063)	(0.091)		(0.060)	(0.058)	(0.083)
$b_{4,D}$	: $D \times \ln \theta_m$				-0.114				-0.036
					(0.127)				(0.115)
b_5	: Constant	0.696***	0.760***	0.522***	0.516***	0.673***	0.733***	0.497***	0.478***
		(0.033)	(0.047)	(0.063)	(0.072)	(0.030)	(0.043)	(0.057)	(0.065)
$b_{5,D}$	: D		0.038	0.362***	0.358***		-0.000	0.321***	0.341***
			(0.028)	(0.065)	(0.089)		(0.026)	(0.059)	(0.081)
Observations		351	351	351	351	351	351	351	351
R^2		0.192	0.217	0.281	0.290	0.211	0.222	0.295	0.301

Notes: Robust standard errors are in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). The aggregated business cycle component of outputs is the average of individual industry's business cycle component of the real value of shipments, which is weighted by using the unfiltered real output share in each year. Table C.5 reports the results with the alternative cyclicality measure: the correlation to the business cycle component of GDP.

Table 2.7: Regression Results: Cyclicality of Export and Market Structures

		Correlation to the Aggregated Business Cycle Component of Outputs							
		HP-filtered Series				Growth Rates			
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
b_1	: $\widetilde{\text{EOS}}_{MC}$	0.372***	0.369***	0.348***	0.349***	0.355***	0.358***	0.323***	0.322***
		(0.065)	(0.068)	(0.086)	(0.087)	(0.057)	(0.060)	(0.076)	(0.077)
$b_{1,D}$	: $D \times \widetilde{\text{EOS}}_{MC}$			0.069	0.066			0.102	0.105
				(0.138)	(0.142)			(0.122)	(0.125)
b_2	: $\widetilde{\text{EOS}}_{NC}$	-0.191***	-0.108	-0.069	-0.049	-0.088	-0.050	-0.028	-0.008
		(0.063)	(0.071)	(0.127)	(0.133)	(0.055)	(0.063)	(0.112)	(0.117)
$b_{2,D}$	: $D \times \widetilde{\text{EOS}}_{NC}$			-0.061	-0.096			-0.041	-0.077
				(0.141)	(0.159)			(0.125)	(0.141)
b_3	: $\ln \varepsilon$	-0.062**	-0.063**	-0.063**	-0.076**	-0.061***	-0.062***	-0.061***	-0.082**
		(0.026)	(0.026)	(0.026)	(0.038)	(0.023)	(0.023)	(0.023)	(0.034)
$b_{3,D}$	: $D \times \ln \varepsilon$				0.027				0.041
					(0.052)				(0.046)
b_4	: $\ln \theta_m$		0.190**	0.195**	0.218*		0.087	0.094	0.107
			(0.078)	(0.079)	(0.114)		(0.069)	(0.070)	(0.100)
$b_{4,D}$	: $D \times \ln \theta_m$				-0.053				-0.038
					(0.158)				(0.140)
b_5	: Constant	0.384***	0.429***	0.414***	0.416***	0.321***	0.347***	0.342***	0.335***
		(0.039)	(0.056)	(0.078)	(0.090)	(0.034)	(0.050)	(0.069)	(0.079)
$b_{5,D}$	: D		0.069**	0.092	0.084		0.023	0.032	0.038
			(0.033)	(0.081)	(0.111)		(0.030)	(0.071)	(0.098)
Observations		351	351	351	351	351	351	351	351
R^2		0.127	0.154	0.155	0.156	0.133	0.139	0.141	0.143

Notes: Robust standard errors are in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). The aggregated business cycle component of outputs is the average of individual industry's business cycle component of the real value of shipments, which is weighted by using the unfiltered real output share in each year. Table C.6 reports the results with the alternative cyclicality measure: the correlation to the business cycle component of GDP.

Table 2.8: Regression Results: Cyclicality of Import and Market Structures

	Correlation to the Aggregated Business Cycle Component of Outputs							
	HP-filtered Series				Growth Rates			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
b_1 : $\widetilde{\text{EOS}}_{MC}$	0.232***	0.261***	0.268***	0.299***	0.194***	0.224***	0.225***	0.235***
	(0.061)	(0.062)	(0.079)	(0.078)	(0.056)	(0.058)	(0.073)	(0.073)
$b_{1,D}$: $D \times \widetilde{\text{EOS}}_{MC}$			0.032	-0.064			0.062	0.037
			(0.127)	(0.127)			(0.117)	(0.119)
b_2 : $\widetilde{\text{EOS}}_{NC}$	-0.303***	-0.151**	0.007	0.164	-0.202***	-0.111*	0.091	0.186*
	(0.060)	(0.066)	(0.116)	(0.119)	(0.054)	(0.061)	(0.108)	(0.112)
$b_{2,D}$: $D \times \widetilde{\text{EOS}}_{NC}$			-0.218*	-0.505***			-0.281**	-0.453***
			(0.130)	(0.143)			(0.121)	(0.134)
b_3 : $\ln \varepsilon$	0.001	-0.003	-0.005	-0.037	-0.027	-0.031	-0.034	-0.089***
	(0.025)	(0.024)	(0.024)	(0.034)	(0.022)	(0.022)	(0.022)	(0.032)
$b_{3,D}$: $D \times \ln \varepsilon$				0.079*				0.113***
				(0.047)				(0.044)
b_4 : $\ln \theta_m$		0.343***	0.351***	0.637***		0.204***	0.215***	0.337***
		(0.072)	(0.072)	(0.102)		(0.067)	(0.067)	(0.096)
$b_{4,D}$: $D \times \ln \theta_m$				-0.581***				-0.275**
				(0.142)				(0.133)
b_5 : Constant	0.645***	0.768***	0.690***	0.802***	0.580***	0.667***	0.569***	0.590***
	(0.037)	(0.052)	(0.072)	(0.080)	(0.034)	(0.048)	(0.067)	(0.076)
$b_{5,D}$: D		0.053*	0.160**	-0.058		0.006	0.142**	0.082
		(0.031)	(0.074)	(0.099)		(0.029)	(0.069)	(0.093)
Observations	351	351	351	351	351	351	351	351
R^2	0.096	0.162	0.169	0.211	0.074	0.098	0.113	0.138

Notes: Robust standard errors are in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). The aggregated business cycle component of outputs is the average of individual industry's business cycle component of the real value of shipments, which is weighted by using the unfiltered real output share in each year. Table C.7 reports the results with the alternative cyclicality measure: the correlation to the business cycle component of GDP.

coefficients $\hat{b}_2 + \hat{b}_{2,D}$, are negative at the 5% significance level. The values of $\hat{b}_2 + \hat{b}_{2,D}$ for exports are statistically zero at the 10% significance level. Because of such inconsistent and insignificant estimation results about both volatilities and cyclicalities, we leave these issues related to nonproduction costs for future research.

2.3 Theoretical Framework: Sloping Marginal Cost Curve and Within-firm Market Interdependence

This section presents an individual firm's problem with a sloping marginal cost curve. Monopolistic competition implies that an individual firm's decision does not affect aggregate variables such as total demands, wages, price indices, and exchange rate. The individual firm's maximization problem is time separable. Each industry can be indexed by its marginal cost coefficient. Thus, we drop the industry (s) and time index (t) in Section 2.3. The section focuses on individual firm's decisions without general equilibrium effects. Thus, all aggregate variables are exogenously given. Section A.1 will construct a dynamic general equilibrium model. There are two countries, home and foreign. We denote foreign variables by an asterisk.

2.3.1 Heterogeneous Firms with Sloping Marginal Cost Curve

There is a continuum of firms in each country and each industry. The mass of firms is given in this section. Home firms are heterogeneous in firm-specific productivity denoted by $z \in [z_{min}, \infty)$ where $z_{min} \geq 1$. There is the industry's productivity denoted by $Z > 0$. Thus, a firm's productivity is Zz. Each firm produces a different variety $\omega \in \Omega$. An individual firm decides the quantity of supply to the domestic and export market denoted by $y_D \geq 0$ and $y_X \geq 0$, respectively. An exporter should ship τy_X units of the good for y_X units to reach the export market where $\tau > 1$ represents the iceberg export costs. Then, the total quantity produced is $y = y_D + \tau y_X$.

The real total cost function in terms of the home consumption basket is

$$\mathrm{tc}\left(y; w, Z, z\right) = \left[\frac{w}{(Zz)^{\frac{1}{\alpha}}}\right] y^{\frac{1}{\alpha}} + f_X \frac{w}{\alpha Z^{\frac{1}{\alpha}}} \mathrm{I}\left\{y_X \in \mathbb{R}_+\right\}, \tag{2.4}$$

where w is the real wage, and $f_X > 0$ is the fixed export costs in unit of efficiency labor.[16] $\mathrm{I}\{\cdot\}$ is

[16] To focus on firm-level interdependence between domestic and export markets, there is no fixed cost for the domestic market. The domestic fixed costs make least productive firms not produce anything. In this section, firm entry and exit mechanisms are abstracted. Because of the assumption of partial equilibrium, it has no impacts on all results in this section. The next section will introduce sunk entry costs as in [Ghironi and Melitz, 2005].

the indicator function.[17] Allowing a sloping marginal cost curve is a key feature of my model, which is represented by the marginal cost coefficient, denoted by α, in Equation (2.4). Conventional new trade and open macroeconomic models introduced by [Krugman, 1979, Krugman, 1980], [Melitz, 2003], and [Ghironi and Melitz, 2005] fix $\alpha = 1$.[18]

The marginal cost coefficient indexes the firm's marginal cost structure. The marginal cost function is decreasing, constant, or increasing in y when $\alpha > 1$, $\alpha = 1$, or $\alpha < 1$, respectively. If the marginal cost curve is sloping ($\alpha \neq 1$), each firm's decisions in one market have effects on the profitability and decisions in other markets. When each firm's marginal cost does not vary with production level ($\alpha = 1$), the decisions in each market can be separated because the marginal cost is unchanged. $\alpha > 1$ causes positive within-firm market interdependence: large export sales lower the marginal cost, which leads to large domestic sales due to high productivity, and vice versa. Inversely, $\alpha < 1$ yields negative within-firm market interdependence: large export sales raise the marginal cost, which diminishes domestic sales due to low productivity, and vice versa.

A firm indexed by its firm-specific productivity z chooses its prices and quantities of supply to maximize its profit:

$$\max \rho_D y_D + Q\rho_X y_X - \mathrm{tc}\left(y; w, Z, z\right)$$
$$\text{subject to } y = y_D + \tau y_X,$$

where ρ_D and ρ_X are real prices relative to the price index in the destination market. Q is the real exchange rate. In each monopolistically competitive market for each industry, the firm faces the following individual demands in home and foreign markets, respectively. $y_D = \left(\rho_D\right)^{-\theta} D$ and $y_X = \left(\rho_X\right)^{-\theta} D^*$, where D and D^* are the effective home and foreign real demand for the industry in terms of destination consumption

[17] The indicator function of $A \subset X$ is a function $\mathrm{I}\left\{x \in A\right\} : X \to \{0, 1\}$ defined by

$$\mathrm{I}\left\{x \in A\right\} = \begin{cases} 1 & \text{if} \quad x \in A \\ 0 & \text{if} \quad x \notin A \end{cases}.$$

[18] More precisely, the cost function with $\alpha = 1$ is the same as it of [Ghironi and Melitz, 2005]. In [Krugman, 1979, Krugman, 1980], there are no fixed operating costs in all markets. Thus, all firms sale in all markets. Economies of scale are from the sunk entry costs. In [Melitz, 2003] and [Ghironi and Melitz, 2005], there are fixed operating costs in an export markets. Thus, least productive firms do not exports. The difference between two papers is that firms in [Ghironi and Melitz, 2005] do not pay fixed operating costs in a domestic market. Thus, sunk entry costs solely generate economies of scale in [Ghironi and Melitz, 2005]. Most open macroeconomic models including this paper use the cost function of [Ghironi and Melitz, 2005] rather than it of [Melitz, 2003] because adding fixed operating costs in a domestic market does not play a crucial role in international business cycles.

basket. To focus on within-firm level channel, this section model assumes a partial equilibrium. Thus, there are no changes in relative prices (sectoral and international). Thus, D and D^* are fixed. Section A.1 will extend the model to a general equilibrium in the next section. The elasticity θ is constant and larger than one, so its markups in both markets are identical and constant: $\mu = \theta/(\theta-1)$. To prevent natural monopoly in an equilibrium, we assume that the marginal cost coefficient is smaller than the markup: $\mu > \alpha$.

2.3.2 *Exporter's and Non-exporter's Profit Maximization*

This section begins by solving a firm's profit maximization for given its export decision ($m_X = \mathrm{I}\{y_X \in \mathbb{R}_+\}$). For convenience, define the effective world demand by $ED(m_X) = D + m_X(\tau/Q)^{1-\theta} QD^*$. Then, a non-exporter's effective world demand is $ED_N = ED(m_X = 0)$ that is equal to the domestic demand. An exporter's effective world demand is $ED_X = ED(m_X = 1)$. ED_X increases in the real exchange rate but decreases in the iceberg trade costs. An exporter sell in both markets, thus its effective world demand is always larger than it of a non-exporter: $ED_X > ED_N$. If they have the same productivity, it will allow for exporters to enjoy more demand and higher revenue than non-exporters. There is a revenue side export motivation for all firms.

Taking as given the firm's export decision, its real marginal cost is given by

$$\mathrm{mc}(z; m_X) = \left[\frac{w}{\alpha (Zz)^{\frac{1}{\alpha}}}\right] [y(z; m_X)]^{\frac{1}{\alpha}-1} = \frac{1}{\mu}\left\{\mu \left[\frac{w}{\alpha (Zz)^{\frac{1}{\alpha}}}\right] [ED(m_X)]^{\frac{1}{\alpha}-1}\right\}^{\frac{\alpha\zeta}{\theta-1}}, \tag{2.5}$$

where $y(z; m_X)$ is the quantity produced for given export decision, and $\zeta = 1/(\mu - \alpha)$ is positive by assumption ($\mu > \alpha$). Thus, a non-exporter's real marginal cost is $\mathrm{mc}_N(z) = \mathrm{mc}(z; m_X = 0)$, and an exporter's real marginal cost is $\mathrm{mc}_X(z) = \mathrm{mc}(z; m_X = 1)$. The optimal prices are equal to firm's markups multiplied by its marginal cost. Thus, the prices for a given export decision are given by

$$\rho_D(z; m_X) = \left\{\mu \left[\frac{w}{\alpha (Zz)^{\frac{1}{\alpha}}}\right] [ED(m_X)]^{\frac{1}{\alpha}-1}\right\}^{\frac{\alpha\zeta}{\theta-1}}, \tag{2.6}$$

$$\rho_X(z; m_X) = \left(\frac{\tau}{Q}\right) \rho_D(z; m_X) \qquad \text{if} \quad m_X = 1. \tag{2.7}$$

If $\alpha = 1$, a firm's price in a domestic market does not change wether it exports or not because there is no impact of effective world demand on prices under constant marginal cost. With $\alpha > 1$, a firm can set lower prices if it exports, due to export efficiency gains derived from the decreasing marginal costs. The opposite holds for $\alpha < 1$.

In the equilibrium, the domestic and export sales in terms of home consumption are

$$\rho_D(z;m_X)\,y_D(z;m_X) = [\rho_D(z;m_X)]^{1-\theta}\,D \tag{2.8}$$

$$\rho_X(z;m_X)\,y_X(z;m_X) = [\rho_X(z;m_X)]^{1-\theta}\,QD^* \qquad \text{if} \quad m_X = 1, \tag{2.9}$$

which implies $\rho_m(z;m_X=1)\,y_m(z;m_X) \propto [ED(m_X)]^{\frac{\alpha-1}{\mu-\alpha}}$ for $m = D, X$. Then, each individual exporter's domestic and export sales are complements if $\alpha > 1$ but are substitutes if $\alpha < 1$. When a firm exports,

$$\frac{\partial \rho_D y_D}{\partial QD^*} \gtreqless 0 \quad \text{if and only if} \quad \alpha \gtreqless 1,$$

$$\frac{\partial \rho_X y_X}{\partial D} \gtreqless 0 \quad \text{if and only if} \quad \alpha \gtreqless 1.$$

In other words, the constant marginal cost causes no within-firm interdependence. The decreasing and increasing marginal costs imply positive and negative within-firm interdependence, respectively.

2.3.3 Profit Curve and Export Decision

Equations (2.8), (2.9), (2.6), and (2.7) imply that the firm's maximized profit for a given export decision is

$$\begin{aligned}\pi(z;m_X) &= \frac{1}{\zeta}\left[\rho_D(z;m_X)\,y_D(z;m_X) + Q\rho_X(z;m_X)\,y_X(z;m_X)\right] - m_X f_X \frac{w}{\alpha Z^{\frac{1}{\alpha}}} \\ &= \frac{1}{\zeta\mu}\left[\mu\frac{w}{\alpha(Zz)^{\frac{1}{\alpha}}}\right]^{-\alpha\zeta}[ED(m_X)]^{1+(\alpha-1)\zeta} - m_X f_X \frac{w}{\alpha Z^{\frac{1}{\alpha}}},\end{aligned} \tag{2.10}$$

where it is an increasing function of the effective world demand ($ED(m_X)$) because $\zeta = (\mu-\alpha)^{-1}$ and $\theta > 1$ guarantee $1 + (\alpha-1)\zeta = (\mu-1)(\mu-\alpha) > 0$. Further, the profit is convex, linear, or concave in effective world demand if and only if $\alpha > 1, = 1$, or < 1. The profit is decomposed into the domestic market profit ($\pi_D(z;m_X)$) and export market profit ($\pi_X(z;m_X)$) as follows.[19]

$$\pi_D(z;m_X) = \frac{1}{\zeta\mu}\left[\mu\frac{w}{\alpha(Zz)^{\frac{1}{\alpha}}}\right]^{-\alpha\zeta}[ED(m_X)]^{(\alpha-1)\zeta}D \tag{2.11}$$

$$\pi_X(z;m_X) = m_X\left\{\left[\frac{\pi_D(z;m_X)}{D}\right]\left(\frac{\tau}{Q}\right)^{1-\theta}QD^* - f_X\frac{w}{\alpha Z^{\frac{1}{\alpha}}}\right\} \tag{2.12}$$

[19]Since the quantities supplied in the domestic and export markets are not linearly separable in the total cost function, it is hard to distinguish between the domestic and export profits. However, it is easy to separate the domestic and export revenues (sales). We assume that the ratio of variable costs in the domestic market to them in the export market equals to the ratio of the domestic market revenue to the export market revenue. Further, that way of decomposition implies that firm's marginal costs in production do not vary a destination of markets. Excluding the iceberg and fixed export costs, there is no reason that the firm's production and cost functions change because it sell the same good in the domestic and export markets.

The previous assumption ($\mu > \alpha \Leftrightarrow \zeta > 0$) guarantees that all firms participate in the domestic market. If a marginal cost function is flat ($\alpha = 1$), the domestic profit is independent of the export decision. The profit function is linearly separable in the domestic and export market demands, so there is no firm-level market interdependence. In contrast, the decreasing marginal cost curve ($\alpha > 1$) causes positive interdependence between firm's decisions in the domestic and export markets. Similarly, the increasing marginal cost curve ($\alpha < 1$) implies negative interdependence between two markets at the firm level. For $m_X = 1$,

$$\frac{\partial \pi_D}{\partial QD^*} \gtreqqless 0 \quad \text{if and only if} \quad \alpha \gtreqqless 1,$$
$$\frac{\partial \pi_X}{\partial D} \gtreqqless 0 \quad \text{if and only if} \quad \alpha \gtreqqless 1,$$

because marginal costs depend on the total quantity produced when the cost curve is not linear.

A firm's profit with firm-specific productivity z is $\pi(z) = \max\{\pi(z; m_X = 0), \pi(z; m_X = 1)\}$. Since its profit strictly increases along with its firm-specific productivity, more productive firms export. An export decision can be represented by the export productivity cutoff, denoted by z_X. The cutoff level satisfies the indifferent condition as follows.

$$\pi(z_X; m_X = 0) = \pi(z_X; m_X = 1)$$

A firm exports when its firm-specific productivity is higher than the cutoff: $z > z_X$.

If there is no firm-level market interdependence derived from a marginal cost curve, then the condition can be expressed by $\pi_X(z_X, m_X = 1) = 0$, because the total profit function is linearly separable in the domestic market profit and export market profit. Thus, the flat marginal cost curve implies that a firm only export when its profit is positive in an export market. However, with a decreasing marginal cost curve, some firms export despite negative profits in the export market. By exporting, firms increase their output and lower their marginal costs, which increases profits in the domestic market.

$$\pi_X(z_X, m_X = 1) \lesseqqgtr 0 \quad \text{if and only if} \quad \alpha \gtreqqless 1$$

For the marginally exporting firm ($z = z_X$), export profit is positive, zero, or negative if the marginal cost is increasing, constant, or decreasing, respectively.

The export decision $m_X(z) = \text{argmax}_{m_X \in \{0,1\}}\, \pi(z; m_X)$ can be represented by the export cutoff z_X

as follows.

$$m_X(z) = \begin{cases} 1 \quad \text{if} \quad z \geq z_X \quad \text{where } z_X = \left[\frac{\mu \zeta f_X w / \left(\alpha Z^{\frac{1}{\alpha}} \right)}{ED_X^{1+(\alpha-1)\zeta} - ED_N^{1+(\alpha-1)\zeta}} \right]^{\frac{1}{\zeta}} \left[\mu \frac{w}{\alpha (Zz)^{\frac{1}{\alpha}}} \right]^{\alpha} \\ 0 \quad \text{otherwise} \end{cases} . \tag{2.13}$$

The assumptions $\mu > \alpha$ and $\theta > 1$ guarantee that z_X and z_X^* are nonnegative and finite, but they can be less than z_{min}. Thus, the cutoff is $\max\{z_X,\ z_{min}\}$. We assume no corner solution for the cutoff levels: z_X and z_X^* are in (z_{min}, ∞). Then, the cutoff always increases in the iceberg cost, fixed cost, and wage but decreases in the real exchange rate and foreign demand as in [Melitz, 2003] and [Ghironi and Melitz, 2005]. The interesting part is that the cutoff depends on the cost structure if $\alpha \neq 1$. The decreasing and increasing marginal cost makes negative and positive relationships between the home demand and cutoff level, respectively.

$$\frac{\partial z_X}{\partial D} \lesseqqgtr 0 \quad \text{if and only if} \quad \alpha \gtreqqless 1$$

If the marginal cost function decreases in quantity produced, a high home demand augments home firms' supply in the domestic market and lowers their marginal costs. Thus, the cutoff level falls, and more firms export. However, the cutoff level is higher if the marginal cost is an increasing function due to complementarity of domestic and export profits and sales.

Figure 2.2 shows the impacts of allowing a sloping marginal cost curve. Under the flat marginal cost curve, exporters and non-exporters have the same slope of domestic market profit curve. Thus, an individual firm's decision to export or not is simply determined by its profit in the export market. The firm exports if the export market profit is positive. However, a sloping marginal cost curve makes the domestic profit curve different for exporters and non-exporters. If $\alpha > 1$, some firms export despite negative profit in the export market because exporting decreases their marginal costs in both markets and increases their domestic profit. Conversely, some firms in the industry with $\alpha < 1$ do not export even though their export market profit is positive due to export efficiency losses.

Additionally, in conventional models based on [Melitz, 2003], the profit is associated with the $(\theta-1)$-th moments of firm-specific productivity $z^{\theta-1}$: $\pi_m \propto z^{\theta-1}$ However, here this result is be generalized that the profit depends on the ζ-th moment of firm-specific productivity z^{ζ}: $\pi_m \propto z^{\zeta}$. For the case with a constant marginal cost curve ($\alpha = 1 \Rightarrow \zeta = \theta - 1$), the firm's optimal decision rule equals that in [Ghironi and Melitz, 2005].

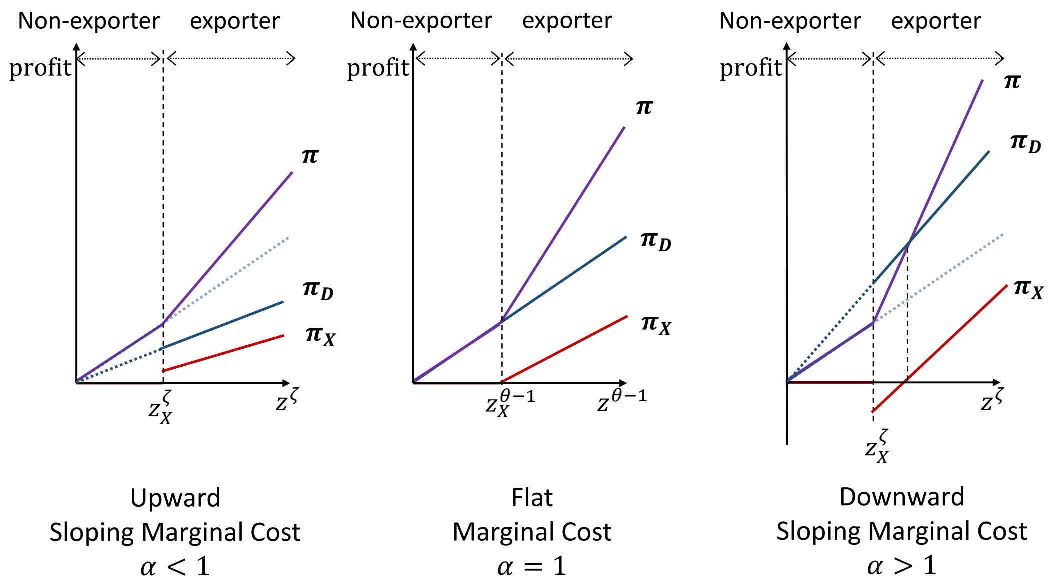

Figure 2.2: Profit Curves with the Flat and Sloping Marginal Cost Curve

2.3.4 Market Size, Export Efficiency Gains, and Cost Advantages

Export efficiency gains (or losses) can be measured by $eg\left(z\right) = \mathrm{mc}_N\left(z\right)/\mathrm{mc}_X\left(z\right)$, where $\mathrm{mc}_N\left(z\right)$ and $\mathrm{mc}_X\left(z\right)$ are marginal costs, depending on whether a firm with z does not export or exports, respectively. In Equation (2.5), the marginal costs can be decomposed into the firm-specific and aggregate parts: $\mathrm{mc}_m\left(z\right) = \overline{\mathrm{mc}}_m z^{\frac{-\zeta}{\theta-1}}$ for $m = N, X$. Thus, that ratio is independent of firm-specific productivity z: $eg\left(z\right) = eg = \overline{\mathrm{mc}}_N/\overline{\mathrm{mc}}_X$. By using Equation (2.5), the measure is given by $eg = \left(ED_N/ED_X\right)^{(1-\alpha)\zeta/(\theta-1)}$.

Exporting decreases individual firm's marginal costs if and only if $eg > 1$. Thus, the efficiency gains or losses are $eg > 1$ or $eg < 1$, respectively. The slop of marginal cost curve is associated with export gains and losses.

$$eg \gtreqless 1 \quad \text{if and only if} \quad \alpha \gtreqless 1,$$

because $ED_N < ED_X$. With economies of scale derived from the decreasing marginal cost, exporting lowers the firm's marginal cost. Thus, exporters enjoy efficiency gains. In other words, the decreasing marginal cost curve generates a cost-side export motivation, a firm exports to reduce its costs.

To investigate the impact of market size, we consider home export efficiency gains (or losses) relative to the foreign country.

$$\frac{eg}{eg^*} = \left\{ \frac{1 + (\tau Q)^{1-\theta} \left[D / (QD^*) \right]}{1 + (\tau / Q)^{1-\theta} \left[(QD^*) / D \right]} \right\}^{\frac{(1-\alpha)\zeta}{\theta - 1}}, \tag{2.14}$$

where the term in braces increases in the home market size relative to the foreign market size: $D/(QD^*)$. Therefore,

$$\frac{\partial eg/eg^*}{\partial D/(QD^*)} \lesseqqgtr 0 \quad \text{if and only if} \quad \alpha \gtreqqless 1.$$

If a marginal cost curve decreases in output, home export efficiency gains relative to the foreign ones decreases in the home market size relative to the foreign country. During a home boom, a large market size makes exporting less attractive for a home firm if its marginal cost curve decreases in its production level. This mechanism causes inter-industry resource shifts to industries with small economies of scale from industries with large economies of scale in a more productive country. The opposite holds for an increasing marginal cost curve.

In contrast to the above export efficiency gains channel, a large market size makes the more productive economy concentrated in industries with large economies of scale because declines in home production costs – by definition of economies of scale – imply cost advantages.

$$\frac{\partial \mathrm{mc}_N/\mathrm{mc}_N^*}{\partial D/(QD^*)} \lesseqqgtr 0 \quad \text{if and only if} \quad \alpha \gtreqqless 1$$

$$\frac{\partial \mathrm{mc}_X/\mathrm{mc}_X^*}{\partial D/(QD^*)} \lesseqqgtr 0 \quad \text{if and only if} \quad \alpha \gtreqqless 1$$

If $\alpha > 1$, home marginal costs relative to the foreign marginal costs for both exporters and non-exporters decreases in the home market size relative to the foreign ones. The opposite holds for $\alpha < 1$.

2.4 Dynamic Stochastic General Equilibrium Model

Based on Section 2.3, this section outlines the construction of a two-country two-industry dynamic stochastic general equilibrium model to investigate the effects of economies of scale derived from marginal costs on industry-level international trade and business cycles. The key feature is that the model allows for two industries, indexed by $s = A$ and $s = B$, with different slopes of marginal cost curves that generate economies of scale and within-firm market interdependence.

There are four extensions from the model of [Ghironi and Melitz, 2005]. First, our model considers two industries to investigate industry heterogeneity. Second, the model allows for sloping marginal cost curves. [Ghironi and Melitz, 2005] assume the flat curve. Third one is frictions in a firm entry. That is consistent with the results in Chapter 1. Also, it enhances the model performance of matching the volatility of firm entries. Finally, in the model, a labor supply is elastic, which allows to study changes in employments (labor) over the business cycle. All other features are identical to [Ghironi and Melitz, 2005].

There are two symmetric countries, home and foreign. All parameters are identical across countries. As in Section 2.3, we denote foreign variables with an asterisk. In each country, there is a continuum of identical households in a unit interval $[0, 1]$. In each country and industry, there is a continuum of firms that is endogenously determined.

2.4.1 Preference and Demand: Representative Household and Capital Producer

In an industry s, an individual firm produces a differentiated good indexed by $\omega \in \Omega^s$. The industry s consumption basket is defined over a continuum of goods Ω^s. In each period t, only a subset of goods $\Omega_t^s \subseteq \Omega^s$ is available. We assume the constant elasticity of substitution across industries and across products in each industry for the consumption basket. Then, the aggregate and industry consumption baskets are specified as

$$C_t = \left[\left(\phi^A\right)^{\frac{1}{\psi}} \left(C_t^A\right)^{\frac{\psi-1}{\psi}} + \left(\phi^B\right)^{\frac{1}{\psi}} \left(C_t^B\right)^{\frac{\psi-1}{\psi}} \right]^{\frac{\psi}{\psi-1}} \quad \text{and} \quad C_t^s = \left\{ \int_{\omega \in \Omega^s} \left[c_t^s(\omega)\right]^{\frac{\theta-1}{\theta}} d\omega \right\}^{\frac{\theta}{\theta-1}}.$$

The share parameter of each industry denoted by $\phi^s \in (0, 1)$ satisfies $\phi^A + \phi^B = 1$. ψ and θ are the constant elasticity of substitution across industries and goods, respectively. To focus on impacts of economies of scale, we assume that industries have the same elasticity of substitution across goods.

In each country, there is a continuum of identical households in a unit interval $[0,\ 1]$. The preference of the representative home household is represented by the time separable utility as follows. At time t_0, the household maximizes

$$\mathbb{E}_{t_0} \left[\sum_{t=t_0}^{\infty} \beta^{t-t_0} U\left(C_t, L_t\right) \right],$$

where $C_t \geq 0$ and $L_t \in [0, 1]$ are the home overall consumption basket and the total labor supply, respectively. $\beta \in (0, 1)$ is the subjective discount factor.

The price of individual good $\omega \in \Omega_t^s$ is denoted by $p_t^s(\omega) \geq 0$. The corresponding overall and industry welfare-based price indices (WPIs) are denoted by P_t and P_t^s, respectively:

$$P_t = \left[\phi^A \left(P_t^A\right)^{1-\psi} + \phi^B \left(P_t^B\right)^{1-\psi}\right]^{\frac{1}{1-\psi}} \quad \text{and} \quad P_t^s = \left\{\int_{\omega \in \Omega_t^s} \left[p_t^s(\omega)\right]^{1-\theta} d\omega\right\}^{\frac{1}{1-\theta}}.$$

The welfare-based real exchange rate is defined by $Q_t = \varepsilon_t P_t^* / P_t$ where ε_t is the nominal exchange rate. The real price of good ω is defined by $\rho_t^s(\omega) = p_t^s(\omega)/P_t$. Similarly, the real industry price is defined by $\rho_t^s = P_t^s / P_t$. Hence, the home demand function of each good ω in industry s is given by

$$c_t^s(\omega) = \left[\frac{p_t^s(\omega)}{P_t}\right]^{-\theta} \left(\frac{P_t^s}{P_t}\right)^{\theta-\psi} \phi^s C_t = \left[\rho_t^s(\omega)\right]^{-\theta} \left(\rho_t^s\right)^{\theta-\psi} \phi^s C_t. \tag{2.15}$$

2.4.2 *Heterogeneous Firms and Their Averages*

A firm is born with its specific productivity z that does not change over time. The firm's total cost function is

$$\text{tc}^s\left(y_t^s; w_t, Z_t^s, z\right) = \left[\frac{w_t}{\left(Z_t^s z\right)^{\frac{1}{\alpha^s}}}\right] \left(y_t^s\right)^{\frac{1}{\alpha^s}} + f_{X,t}^s \frac{w_t}{\alpha^s \left(Z_t^s\right)^{\frac{1}{\alpha^s}}} \mathrm{I}\left\{y_{X,t}^s \in \mathbb{R}_+\right\},$$

where Z_t^s is the aggregate productivity of s industry. $f_{X,t}^s$ is the fixed export cost in efficient labor units.

In each period, a firm with firm-specific productivity z chooses its prices and quantities of supply to maximize its profit: for each $s = A$ and B,

$$\max_{\left\{\rho_{m,t}^s \geq 0,\, y_{m,t}^s \geq 0\right\}_{m=D,\,X}} \rho_{D,t}^s y_{D,t}^s + Q_t \rho_{X,t}^s y_{X,t}^s - \text{tc}^s\left(y_t^s; w_t, Z_t^s, z\right)$$

$$\text{subject to} \quad y_t^s = y_{D,t}^s + \tau_t y_{X,t}^s,$$

$$y_{D,t}^s = \left(\rho_{D,t}^s\right)^{-\theta} \left(\rho_t^s\right)^{\theta-\psi} \phi^s C_t, \text{ and } y_{X,t}^s = \left(\rho_{X,t}^s\right)^{-\theta} \left(\rho_t^{s*}\right)^{\theta-\psi} \phi^s C_t^*,$$

where $\rho_{D,t}^s = p_{D,t}^s / P_t$ and $\rho_{X,t}^s = p_{X,t}^s / P_t^*$ are real prices relative to the aggregate price index in the destination market. Table 2.9 summarizes the firm's solution to the maximization problem for given its firm-specific productivity z.

In each period t, a mass N_t^s of firms produce in the home country for each industry s. To focus on heterogeneous marginal cost structures, we assume that industries A and B have identical distribution functions for firm-specific productivity, denoted by $G(\cdot)$ with support on $[z_{min}, \infty)$. As in the partial equilibrium model, the fixed export costs cause least productive firms not to export. Only firms with high productivity

Table 2.9: Firm's Optimal Decisions in Each Industry

Export Decision	
$m_t^s(z) = 0$	if $z < z_{X,t}^s$
$m_t^s(z) = 1$	if $z \geq z_{X,t}^s$
Effective world demand	
$ED_t^s(z) = ED_{N,t}^s = (\rho_t^s)^{\theta-\psi}\,\phi^s C_t$	if $z < z_{X,t}^s$
$ED_t^s(z) = ED_{X,t}^s = (\rho_t^s)^{\theta-\psi}\,\phi^s C_t + (\rho_t^{s*})^{\theta-\psi}\left(\frac{\tau_t^s}{Q_t^s}\right)^{1-\theta} Q_t^s\phi^s C_t^*$	if $z \geq z_{X,t}^s$
Prices	
$\rho_{D,t}^s(z) = \left[\mu\frac{w_t}{\alpha^s(Z_t^s)^{\frac{1}{\alpha^s}}}\right]^{\frac{\alpha^s\zeta^s}{\theta-1}}\left[ED_t^s(z)\right]^{\frac{-(\alpha^s-1)\zeta^s}{\theta-1}} z^{\frac{-\zeta^s}{\theta-1}}$	for all z
$\rho_{X,t}^s(z) = \left(\frac{\tau_t^s}{Q_t^s}\right)\rho_{D,t}^s(z)$	if $z \geq z_{X,t}^s$
Sales	
$\rho_{D,t}^s(z)\,y_D(z) = \left[\rho_{D,t}^s(z)\right]^{1-\theta}(\rho_t^s)^{\theta-\psi}\,\phi^s C_t$	for all z
$Q_t\rho_{X,t}^s(z)\,y_X(z) = 0$	if $z < z_{X,t}^s$
$Q_t\rho_{X,t}^s(z)\,y_X(z) = \left[\rho_{X,t}^s(z)\right]^{1-\theta} Q_t\,(\rho_t^{s*})^{\theta-\psi}\,\phi^s C_t^*$	if $z \geq z_{X,t}^s$
Profit in Each Market	
$\pi_{D,t}^s(z) = \left(\frac{1}{\zeta^s\mu}\right)\rho_{D,t}^s(z)\,y_D(z)$	for all z
$\pi_{X,t}^s(z) = 0$	if $z < z_{X,t}^s$
$\pi_{X,t}^s(z) = \left(\frac{1}{\zeta^s\mu}\right)Q_t\rho_{X,t}^s(z)\,y_X(z) - f_{X,t}^s\frac{w_t}{(Z_t^s)^{\frac{1}{\alpha}}}$	if $z \geq z_{X,t}^s$
Export Cutoff	
$z_{X,t}^s = \left\{\frac{\mu\zeta^s f_{X,t}^s w_t/\left[\alpha^s(Z_t^s)^{\frac{1}{\alpha^s}}\right]}{\left(ED_{X,t}^s\right)^{1+(\alpha^s-1)\zeta^s} - \left(ED_{N,t}^s\right)^{1+(\alpha^s-1)\zeta^s}}\right\}^{\frac{1}{\zeta^s}}\left[\mu\frac{w_t}{\alpha^s(Z_t^s)^{\frac{1}{\alpha^s}}}\right]^{\alpha^s}$	

$z > z_{X,t}^s$ become an exporter. Among firms there are $N_{X,t}^s = \left[1 - G\left(z_{X,t}^s\right)\right] N_t^s$ exporters. The rest of the firms $N_{N,t}^s = G\left(z_{X,t}^s\right) N_t^s$ sell only domestically. To summarize all the information on the productivity distributions relevant for all aggregate variables as in [Melitz, 2003], define average productivity levels for different groups as follows. For each $s = A$ and B,

$$\text{All firms:} \qquad \tilde{z}_D^s = \left[\int_{z_{min}}^{\infty} z^{\zeta^s} dG(z)\right]^{\frac{1}{\zeta^s}},$$

$$\text{Non-exporters:} \qquad \tilde{z}_{N,t}^s = \left[\int_{z_{min}}^{z_{X,t}^s} z^{\zeta^s} \frac{dG(z)}{G\left(z_{X,t}^s\right)}\right]^{\frac{1}{\zeta^s}},$$

$$\text{Exporters:} \qquad \tilde{z}_{X,t}^s = \left[\int_{z_{X,t}^s}^{\infty} z^{\zeta^s} \frac{dG(z)}{1 - G\left(z_{X,t}^s\right)}\right]^{\frac{1}{\zeta^s}}.$$

Then, these satisfy

$$(\tilde{z}_D^s)^{\zeta^s} = \left(\frac{N_{N,t}^s}{N_t^s}\right)\left(\tilde{z}_{N,t}^s\right)^{\zeta^s} + \left(\frac{N_{X,t}^s}{N_t^s}\right)\left(\tilde{z}_{X,t}^s\right)^{\zeta^s} \quad \text{for} \quad s = A,\ B. \tag{2.16}$$

We assume that the distribution of z has finite ζ^s-th moments for every industry: $(\tilde{z}_D^s)^{\zeta^s} = (\tilde{z}_D^{s*})^{\zeta^s} < \infty$.

In line with [Melitz, 2003], the productivity averages are constructed in such way that $\pi_{D,t}^s\left(\tilde{z}_{N,t}^s\right)$ and $\pi_{D,t}^s\left(\tilde{z}_{X,t}^s\right)$ are the average domestic market profit of non-exporters and exporters, respectively. The average export market profit of exporters is $\pi_{X,t}^s\left(\tilde{z}_{X,t}^s\right)$. The export market profit of non-exporters is zero: $\pi_{X,t}^s\left(\tilde{z}_{N,t}^s\right) = 0$ because $\tilde{z}_{N,t}^s < z_{X,t}^s$. The average profit of all home firms is given by

$$\tilde{\pi}_t^s = G\left(z_{X,t}^s\right)\pi_t^s\left(\tilde{z}_{N,t}^s\right) + \left[1 - G\left(z_{X,t}^s\right)\right]\pi_t^s\left(\tilde{z}_{X,t}^s\right). \tag{2.17}$$

For each industry, the average relative price of firms in their domestic market is

$$\tilde{\rho}_{D,t}^s = \left\{G\left(z_{X,t}^s\right)\left[\rho_{D,t}^s\left(\tilde{z}_{N,t}^s\right)\right]^{1-\theta} + \left[1 - G\left(z_{X,t}^s\right)\right]\left[\rho_{D,t}^s\left(\tilde{z}_{X,t}^s\right)\right]^{1-\theta}\right\}^{1/(1-\theta)}, \tag{2.18}$$

which does not equal $\rho_{D,t}^s\left(\tilde{z}_D^s\right)$ if $\alpha^s \neq 1$. The average relative price of firms in their export market is

$$\tilde{\rho}_{X,t}^s = \rho_{X,t}^s\left(\tilde{z}_{X,t}^s\right), \tag{2.19}$$

in the destination consumption basket. By the definition of welfare based industry price index, the relative prices satisfy that

$$\left(\rho_t^s\right)^{1-\theta} = N_t^s\left(\tilde{\rho}_{D,t}^s\right)^{1-\theta} + N_{X,t}^{s*}\left(\tilde{\rho}_{X,t}^{s*}\right)^{1-\theta} \quad \text{for} \quad s = A,\ B. \tag{2.20}$$

2.4.3 Firm Entry and Exit

As in [Ghironi and Melitz, 2005], We assume a one period time-to-build lag for entrants. Entrants at t start to produce at $t+1$. Additionally, every firm faces exogenous death shocks with a constant probability $\delta \in (0,1)$ at the end of each period. Thus, the law of motion for the number of firms in the home industry s is given by $N_t^s = (1-\delta)\left(N_{t-1}^s + N_{E,t-1}^s\right)$ where $N_{E,t-1}^s$ is the mass of entrants at $t-1$.

Forward looking behavior and rational expectations imply that domestic firm entry is decided based on the present value of the expected future stream of profits. The value of entry $\tilde{\nu}_t^s$ is

$$\tilde{\nu}_t^s = \mathbb{E}_t\left[\sum_{i=t+1}^{\infty}\left[\beta\left(1-\delta\right)\right]^{i-t}\left(\frac{\partial U_i}{\partial C_i}/\frac{\partial U_t}{\partial C_t}\right)\tilde{\pi}_i^s\right] \quad \text{for} \quad s = A,\ B. \tag{2.21}$$

Then, the free entry condition is represented by

$$\tilde{\nu}_t^s = f_{E,t}^s \frac{w_t}{\left(Z_t^s\right)^{\frac{1}{\alpha}}} \quad \text{for} \quad s = A,\ B, \tag{2.22}$$

Entry occurs until the average value of the firm on the left hand side of Equation (2.22) equals the entry cost on the right hand side of Equation (2.22).

The entry costs in units of efficient labor depend on the number of firm entry as follows:

$$f_{E,t}^s = f_E + \eta_E\left[\exp\left(N_{E,t}^s - N_{E,t-1}^s\right) - 1\right] \quad \text{for} \quad s = A,\ B, \tag{2.23}$$

where $\eta_E \geq 0$ is the entry adjustment costs parameter. A large entry increases the costs. There are three reasons why the model introduces it. First, it is consistent of my empirical framework represented in Equation (1.7). Second, the parameter decreases the volatility of the number of entrants. The model without entry frictions is too volatile regarding firm entry than the data. Lastly, the entry friction hinder cross-industry resource allocations. In the model, the main path of reallocations is changes in the number of firms (firm entry). Thus, η_E plays the role as resource reallocation costs across industries, which reduce the reallocations in the short run. Under $\eta_E = 0$, the model generates unrealistically drastic resource shifts across industries.

2.4.4 Household Budget Constraint and Choices

The representative household holds two types of asset: shares in mutual funds of domestic firms and risk-free bonds with real returns. Each country has mutual funds that own all domestic firms and finance entry of new firms. As in [Ghironi and Melitz, 2005], the household only buys shares of domestic mutual funds. The mutual fund pays a total profit in each period that equals the total profit of all home firms: $N_t^s \tilde{\pi}_t^s$ in terms of the home consumption. The household buys x_{t+1}^s shares in the mutual fund of $N_t^s + N_{E,t}^s$ home firms in s industry. Home entrants in period t will produce and pay dividends in the future period $t+1$.

Each household in two countries can trade risk-free bonds domestically and internationally.[20] Home (foreign) bonds are issued by the home (foreign) household with the home (foreign) consumption real interest rate. In period t, the home household's home and foreign bond holdings are B_t and $B_{*,t}$, respectively. At the end of the period, their home and foreign bond holdings are B_{t+1} and $B_{*,t+1}$, respectively. There are adjustment costs for bond holdings, which prevents the indeterminacy problem. The home household pays quadratic adjustment costs for home and foreign bond holdings of $0.5\eta_B B_{t+1}^2$ and $0.5\eta_B Q_t B_{*,t+1}^2$, respectively.

The aggregate GDP is defined by $GDP_t = w_t L_t + \sum_{s=A,B} N_t^s \tilde{\pi}_t^s$. Then, the period budget constraint (in units of home consumption) is written as

$$\begin{aligned} & B_{t+1} + Q_t B_{*,t+1} + C_t + \sum_{s=A,B} \tilde{\nu}_t^s \left(N_t^s + N_{E,t}^s\right) x_{t+1}^s \\ & = \left(1+r_t\right) B_t + Q_t \left(1+r_t^*\right) B_{*,t} + GDP_t + \sum_{s=A,B} \tilde{\nu}_t^s N_t^s x_t^s - \frac{\eta_B}{2}\left(B_{t+1}^2 + Q_t B_{*,t+1}^2\right) + T_t^f, \end{aligned} \tag{2.24}$$

where $\tilde{\nu}_t^s$ is the price (in terms of home consumption basket) of claims to future profits of home firms in industry s. r_{t+1} and r_{t+1}^* are the real interest rates of domestic and foreign bond from t to $t+1$ in terms of domestic and foreign consumption unit, respectively. The adjustment costs transfer to the household: $T_t^f = 0.5\eta_B\left(B_{t+1}^2 + Q_t B_{*,t+1}^2\right)$.

The home household maximizes its expected intertemporal utility subject to Equation (2.24). The intertemporal decision rules for home and foreign bonds and share holdings are

$$1 + \eta_B B_{t+1} = \beta\left(1 + r_{t+1}\right) \mathbb{E}_t \left[\frac{\partial U_{t+1}}{\partial C_{t+1}} / \frac{\partial U_t}{\partial C_t}\right] \tag{2.25}$$

$$1 + \eta_B B_{*,t+1} = \beta\left(1 + r_{t+1}^*\right) \mathbb{E}_t \left[\left(\frac{\partial U_{t+1}}{\partial C_{t+1}} / \frac{\partial U_t}{\partial C_t}\right)\left(\frac{Q_{t+1}}{Q_t}\right)\right] \tag{2.26}$$

$$\tilde{\nu}_t^s = \beta\left(1-\delta\right) \mathbb{E}_t \left[\left(\frac{\partial U_{t+1}}{\partial C_{t+1}} / \frac{\partial U_t}{\partial C_t}\right)\left(\tilde{\nu}_{t+1}^s + \tilde{\pi}_{t+1}^s\right)\right] \quad \text{for} \quad s = A,\ B. \tag{2.27}$$

There is no arbitrage in holding shares of mutual funds, domestic, and foreign bonds. The intratemporal

[20] The assumption is not crucial. The financial autarky, meaning bonds are only traded domestically, shows slower adjustment in impulse responses to asymmetric shocks, but there is no qualitative difference between the two bond trading structures.

labor supply decision rule is given by

$$-\frac{\partial U_t}{\partial L_t} / \frac{\partial U_t}{\partial C_t} = w_t. \tag{2.28}$$

The labor market is cleared as follows:

$$L_t = \sum_{s=A,B} \alpha^s \zeta^s \frac{N_t^s \tilde{\pi}_t^s}{w_t} + (1 + \alpha^s \zeta^s) N_{X,t}^s f_{X,t}^s \frac{1}{\alpha \left(Z_t^s\right)^{\frac{1}{\alpha}}} + N_{E,t}^s f_{E,t}^s \frac{1}{\alpha \left(Z_t^s\right)^{\frac{1}{\alpha}}}. \tag{2.29}$$

The financial market clearing requires $B_{t+1} + B_{t+1}^* = 0$, $B_{*,t+1} + B_{*,t+1}^* = 0$, and $x_{t+1}^s = x_{t+1}^{s*} = 1$ for every period t. In the equilibrium. the aggregate accounting equation can be written as

$$B_{t+1} + Q_t B_{*,t+1} + C_t + I_t = (1 + r_t) B_t + Q_t (1 + r_t^*) B_{*,t} + GDP_t, \tag{2.30}$$

where $I_t = \sum_{s=A,B} I_t^s$ and $I_t^s = N_{E,t}^s \tilde{\nu}_t^s$ are the aggregate and industry investments, respectively. Internationally traded bonds allow the model to accommodate trade imbalance.

2.5 Quantitative Analysis

2.5.1 Calibration

We use following preference (henceforth, GHH preference) introduced by [Greenwood et al., 1988], which give a constant Frisch elasticity of labor supply denoted by $\varrho > 0$.

$$U_t (C_t, L_t) = \frac{\left(C_t - \chi \frac{L_t^{1+1/\varrho}}{1+1/\varrho}\right)^{1-\sigma} - 1}{1 - \sigma},$$

where $\sigma > 1$ governs relative risk aversion.

The calibration follows [Ghironi and Melitz, 2005]. Each period represents a quarter calendar year. Set values of $\beta = 0.99$ and $\sigma = 2$, which are standard choices for business cycle models. The bond adjustment cost is $\eta_B = 0.0025$, which is sufficient to induce stationarity. Empirical studies report that the aggregate macro Frisch elasticity, ϱ, is between 1 and 2. We choose the middle: $\varrho = 1.5$. χ is chosen to match the steady state labor supply, which is equal to 1/3 for the model. The elasticity of substitution between the two industries is close to one: $\psi = 1.1$. Thus, the expenditure share of each industry does not fluctuate very much over the business cycle.

The group criteria are based on U.S. data. The two industries A and B correspond to industries SEOS and LEOS from Section 2.2, respectively. Based on my empirical results, slopes of marginal cost curves are different across industries but assume identical nonproduction costs: sunk entry and fixed export costs. We choose $\left(\alpha^A,\ \alpha^B\right) = (0.85,\ 1.15)$. According to Table 1.1 of Section 1.5 in Chapter 1, the aggregate marginal cost curve is slightly downward sloping. However, this research focuses on cost heterogeneity across industries, industries are equally weighted $\phi^A = \phi^B = 0.5$ for my benchmark model so that the economy exhibits a flat marginal cost curve at the aggregate level. Further, we consider $\phi^B \in [0.5, 0.625]$ that implies a downward sloping aggregate marginal cost curve as in the data.

To investigate the effects of heterogeneous sloping marginal cost curves, we also consider a comparison with the model in which industries are identical: homogenous flat marginal costs $\alpha^A = \alpha^B = 1$. Thus, economies of scale are only from the sunk entry and fixed export costs. The comparison model (denoted by GM) represents the conventional new trade open macro model introduced by [Ghironi and Melitz, 2005]. The main differences between my conventional model and [Ghironi and Melitz, 2005]'s model are endogenous labor supply with GHH preference and firm entry frictions.[21]

To focus on cost structure heterogeneity across industries, remaining parameters are identical across industries. We set $\delta = 0.025$ and $\theta = 3.8$ to match the U.S. plant and macro trade data. The entry and export costs are identical across industries. The steady-state level of fixed entry cost is normalized by 1: $f_E^s = 1$. A wide range of studies use an iceberg trade cost between 20% and 50%. As the benchmark, we set these costs at 30% as in [Ghironi and Melitz, 2005]: $\tau_t = 1.3$. The steady state level of fixed export cost is $f_X^s = 0.3 f_E^s \left[1 - \beta\left(1 - \delta\right)\right] / \left[\beta\left(1 - \delta\right)\right]$, which implies the fraction is 25% for the given $\tau_t = 1.3$.[22] The entry friction parameter η_E is chosen to match the volatility of the numbers of entrants.

In line with [Axtell, 2001], the firm-specific productivity in each industry follows a Pareto distribution with shape parameter k and support on $[1, \infty)$. Industries A and B have identical distribution functions given by $G\left(z\right) = 1 - z^{-k}$ on the support. For the existence of ζ^s-th moments, k should be larger than ζ^s. In other words, $\alpha^s < \mu - 1/k$. In the previous section, we assumed that $1/\zeta^s = \mu - \alpha^s > 0$ for an interior solution to the firm's problem with positive profits. In sum, the restriction is given by

$$0 < \alpha^s < \min\left\{\mu, \mu - \frac{1}{k}\right\} = \mu - \frac{1}{k}.$$

We set the shape parameter of the Pareto distribution to be $k = 5.5$, which implies that the heavy tail index

[21]The original model in [Ghironi and Melitz, 2005] assumes inelastic labor supply and no friction ($\eta_E = 0$).

[22]For the comparison model (GM), we set $f_X^s = 0.425 f_E^s \left[1 - \beta\left(1 - \delta\right)\right] / \left[\beta\left(1 - \delta\right)\right]$ to match 25% of exporters.

of firm sales is 1.14.[23] [Axtell, 2001] documents that the index is close to 1 in the U.S. Census data: the range from 1.06 to 1.10. In [Bernard et al., 2003] and [Ghironi and Melitz, 2005], the index is around 1.25.

Aggregate and Industry-specific Shocks

This section consider the aggregate and industry-specific shocks. Let A_t and A_t^s be the home aggregate (common) and industry-specific productivities, respectively. Their steady state values are normalized by one. There are no idiosyncratic shocks in a firm-specific productivity. Then, the industry's total productivity excluding a firm-specific productivity is $Z_t^s = A_t A_t^s$. The home and foreign economies are symmetric. The home and foreign aggregate and industry-specific productivities follow multivariate AR(1) process:

$$\begin{bmatrix} \ln A_{t+1} \\ \ln A^*_{t+1} \\ \ln A^A_{t+1} \\ \ln A^{A*}_{t+1} \\ \ln A^B_{t+1} \\ \ln A^{B*}_{t+1} \end{bmatrix} = \begin{bmatrix} \mathbf{\Xi} & \mathbf{0}_{2\times 2} & \mathbf{0}_{2\times 2} \\ \mathbf{0}_{2\times 2} & \mathbf{\Xi} & \mathbf{0}_{2\times 2} \\ \mathbf{0}_{2\times 2} & \mathbf{0}_{2\times 2} & \mathbf{\Xi} \end{bmatrix} \begin{bmatrix} \ln A_t \\ \ln A^*_t \\ \ln A^A_t \\ \ln A^{A*}_t \\ \ln A^B_t \\ \ln A^{B*}_t \end{bmatrix} + \begin{bmatrix} e_{A,t+1} \\ e^*_{A,t+1} \\ e^A_{S,t+1} \\ e^{A*}_{S,t+1} \\ e^B_{S,t+1} \\ e^{B*}_{S,t+1} \end{bmatrix}, \text{ where } \mathbf{\Xi} = \begin{bmatrix} \xi_{AA} & \xi_{AA^*} \\ \xi_{AA^*} & \xi_{AA} \end{bmatrix}. \tag{2.32}$$

The shock innovations that are denoted by $e_{A,t}$, $e^*_{A,t}$, $e^A_{S,t}$, $e^{A*}_{S,t}$, $e^B_{S,t}$, and $e^{B*}_{S,t}$ are multi-normally distributed with zero mean and variance-covariance matrix $\mathbf{\Sigma}$. The cross-country transmission matrix $\mathbf{\Xi}$ is identical between the aggregate and industry-specific shocks. There is no transmission between aggregate and industry-specific shocks.

To investigate the net impacts of cost structure heterogeneity on propagation mechanisms of aggregate and industry-specific shocks, assume that industry shock innovations are exchangeable. Also, the aggregate

[23] We assumed that $k/\zeta^s > 1$ for both Industries A and B. Then, the aggregated level density function of firm-specific productivity can be represented by

$$1 - \mathrm{CDF}(z) = z^{-\min\left\{\frac{k}{\zeta^A}, \frac{k}{\zeta^B}\right\}} L(z) \quad \text{for } z \geq 1, \tag{2.31}$$

where $L(\cdot)$ is a slowly varying function: $\lim_{x\to\infty} L(cx)/L(x) = 1$ for any constant $c > 0$. Thus, the heavy tail index is k/ζ^B because ζ^s is increasing in α^s.

and industry-specific shocks are orthogonal. The variance-covariance matrix takes the form

$$\mathbf{\Sigma} = \begin{bmatrix} \sigma_A^2 \mathbf{\Sigma}_C & \mathbf{0}_{2\times4} \\ \mathbf{0}_{4\times2} & \sigma_S^2 \begin{bmatrix} \mathbf{\Sigma}_C & \rho_S \mathbf{\Sigma}_C \\ \rho_S \mathbf{\Sigma}_C & \mathbf{\Sigma}_C \end{bmatrix} \end{bmatrix} \quad \text{where } \mathbf{\Sigma}_C = \begin{bmatrix} 1 & \rho_C \\ \rho_C & 1 \end{bmatrix}. \tag{2.33}$$

ρ_C and ρ_S are the cross-country and cross-industry correlations of innovations, respectively. σ_A and σ_S are the cross-country and cross-industry standard deviations of innovations, respectively.

According to [Foerster et al., 2011], the cross-industry correlation of innovations is low in the U.S.[24] Based on their results, We set $\rho_S = 0.15$. The variance of the shock innovation is 0.005^2 to match GDP volatility in the U.S. data. The shock innovation can be represented by the sum of aggregate and industry-specific innovations: $e_t = e_{A,t} + \sum_{s=A,B} \phi^s e^s_{S,t}$. Then, the variance of shock innovation is $\text{var}(e_t) = \sigma_A^2 + 2\phi^A \phi^B (1+\rho_S)\sigma_S^2$. Let the size of aggregate and industry-specific shocks be $1 - \omega_S = \sigma_A^2 / \text{var}(e_t)$ and ω_S, respectively. The standard deviations of aggregate and industry-specific shock innovations depend on ρ_S and ω_S as follows.

$$\sigma_A = 0.005\sqrt{1-\omega_S} \quad \text{and} \quad \sigma_S = 0.005\sqrt{\frac{\omega_S}{2\phi^A \phi^B (1+\rho_S)}}.$$

As my benchmark calibration for impulse responses, we set $\omega_S = 0$. There is no industry-specific shocks. The reason is that the simulation wants to focus on propagation mechanisms endogenously derived from the slopping marginal cost curves and their variations. According to [Foerster et al., 2011], the size of industry specific shocks is relatively small. They report $\omega_S = 0.11$ and 0.13 during the 1972 – 1983 and 1984 – 2007, respectively. Thus, we set $\omega_S = 0.12$ for simulated moments. There are no meaningful changes in all my results when we allow $\omega_S > 0$ in the reasonable range.

2.5.2 *Impulse Responses: Cross-country and Cross-industry Resource Allocation*

To investigate the cross-country and cross-industry resource allocation by international trade, this section shows the dynamic path of model variables based on numerical simulations in response to transitory shocks to productivity. To illustrate the model implications for sloping marginal costs and industry heterogeneity, we consider a transitory shock without spillover: $\xi_{AA} = \xi_{A^*A^*} = 0.9$ in Equation (2.32) that is a conventional experiment in the literature. Also, the cross-country and cross-industry correlations are zero:

[24] [Foerster et al., 2011] report 0.19, 0.27, and 0.11 during the 1972 – 2007, 1972– 1983, and 1984 – 2007, respectively.

$\rho_C = \rho_S = 0$. There is no industry specific shock: $\omega_S = 0$. 84 % of the initial increase in productivity has been reabsorbed ten years after the shock approximately. The one-time transitory shock is favorable to home: increase in $e_{A,t}$ from 0 to 0.01.

This section considers the two models with heterogeneous and homogenous marginal cost structures denoted by Benchmark (the red lines) and GM (the blue lines), respectively. The benchmark model follows my benchmark calibration: $\alpha^A = 0.85$ and $\alpha^A = 1.15$. Industries A and B exhibit negative and positive within-firm market interdependence, respectively. The GM model has an identical flat marginal cost curve: $\alpha^A = \alpha^B = 1$ and represents the conventional new trade open macro model introduced by [Ghironi and Melitz, 2005]. In both models, the entry friction is $\eta_E = 2.5$.

Figures 2.3 and 2.4 describe the impulse responses of aggregate and industrial variables to the home aggregate productivity shock, respectively. The impulses responses converge to the original steady states slowly because of endogenous firm entry with time to build and costs. After a favorable shock to the home country, Figure 2.3 shows that heterogeneous marginal costs generate more correlated business cycles. Increases in home and foreign GDP are smaller and larger in the Benchmark model than in the GM model, respectively. Further, Figure 2.4 indicates that industry outputs are more correlated across countries in Industry B than in Industry A. The home country is more concentrated in Industry A than in Industry B. The output, entry, and exports in the home Industry A increase more than them in the home Industry B. Since there is only aggregate shocks, the heterogeneous impulse responses of Benchmark model across industries are endogenous,and the responses of GM are identical across industries.

There are two main mechanisms generating the different responses between Industries A (circles) and B (squares) in Figure 2.4. First, economies of scale generate cost advantages for the home country in Industry B for both exporters and non-exporters. Since the number of firms is slowly changing, in the short run individual home firms expands after the shock occurs. Thus, Industry B with its decreasing marginal cost curve endogenously becomes more productive relative to Industry A, and Industry B expends more than Industry A. However, that scale channel disappears over time due to the large entry of home firms. An increase in the number of home firms implies that individual firm size decreases due to high competition, which means that home firms lose their cost advantages. Thus, the channel is negatively related to the speed of firm entry dynamics. The second channel works in the opposite direction. There are export losses and gains in Industries A and B, respectively. During a home boom, export gains are more important in the foreign country than in the home country due to low domestic demand in the foreign country relative to it

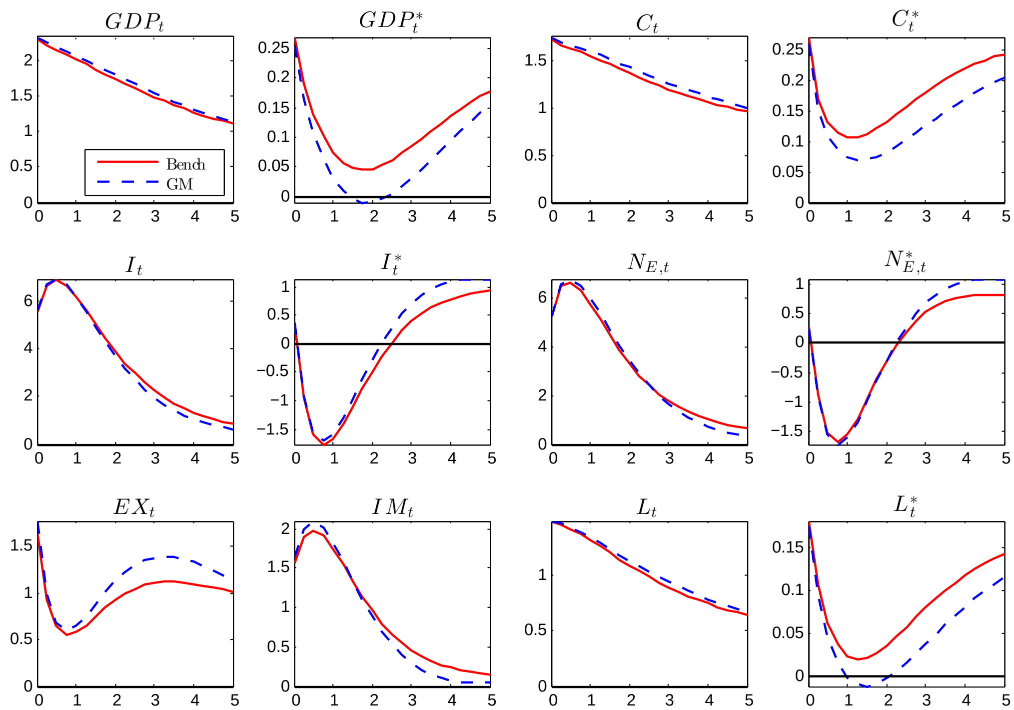

Figure 2.3: Impulse Responses to 1% aggregate shock in the Home Country: aggregate variables

Notes: The number of periods after the shock is on the horizontal axis. The percentage deviations from the steady state is on the vertical axis. The red lines and the blue dashed lines are the benchmark ($\alpha^A = 0.85$ and $\alpha^B = 1.15$) and GM ($\alpha^A = \alpha^B = 1$) models, respectively.

in the home country. Thus, there are industry reallocations from Industry A to Industry B in the foreign country: more firms and exporters in Industry B. That channel is positively associated with the speed of firm entry dynamics.

The firm entry frictions play a crucial role in determining the size of these two channels. The first is more intensive and second more extensive. As the previous paragraph discussed, the first and second channel have a negative and positive association with firm entries, respectively. Slow changes in the number of firms strengthen the first channel but weaken the second channel. Under empirically plausible parameters, the first channel is larger than the second channel in the short run, but as time passes, the second channel

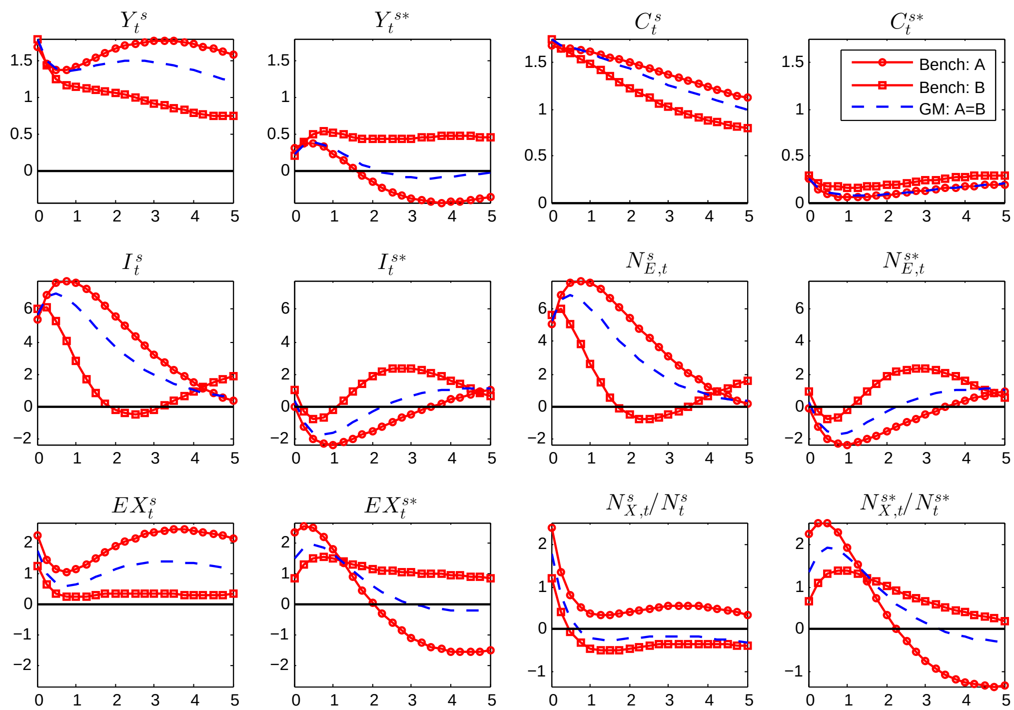

Figure 2.4: Impulse Responses to 1% aggregate shock in the Home Country: Industrial variables

Notes: The number of periods after the shock is on the horizontal axis. The percentage deviations from the steady state is on the vertical axis. The red lines and the blue dashed lines are the benchmark ($\alpha^A = 0.85$ and $\alpha^B = 1.15$) and GM ($\alpha^A = \alpha^B = 1$) models, respectively. The circles and squares are Industries A and B, respectively.

overwhelms the first one. Thus, home Industry B expanses more than home Industry A at first. After one year, however, Industry A has a larger output than Industry B in the home country.

Figure 2.3 indicates that allowing heterogeneous marginal costs generates more correlated aggregate GDP comovements across countries. In Figure 2.4, the Benchmark model has larger cross-country differences in Industries A than the conventional model represented by GM, while the opposite is true for Industry B. Thus, Industry B contributes to mitigating the quantity anomaly. Conversely, Industry A worsens the quantity anomaly because within-firm market interdependence in Industries A and B are negative and positive, respectively. Positive within-firm market interdependence in Industry B is quantitatively larger than

Industry A's negative interdependence because export gains and losses derived from marginal costs cause Industry B to trade more intensively than Industry A. Thus, industries with large economies of scale have larger impacts on international business cycles than industries with smaller economies of scale.

2.5.3 International Business Cycles

This section presents the international business cycle properties of the model. To calculate model-generated moments, we use HP filtered variables. A smoothing parameter is 1600 which value is proposed by [Hodrick and Prescott, 1997].

As in [Ghironi and Melitz, 2005], we define data-consistent variables using consumer price indices (CPIs) for the simulated results. The data-consistent version of variables x_t and x_t^s (with welfare price indices, WPIs) are denoted $x_{R,t}$ and $x_{R,t}^s$, respectively. In my empirical analysis, we construct real variables for industries with industry-level price indices rather than the aggregate CPI. Thus, the industry's real variable with CPI is defined by

$$x_{R,t}^s = \left(N_t^s + N_{X,t}^{s*}\right)^{\frac{1}{1-\theta}} x_t^s.$$

$x_{R,t}^s$ ignores the love-of-variety effect from changes in the number of domestic and imported goods.[25] The aggregate real variable with CPI is defined by

$$x_{R,t} = \left[\phi^A \left(N_t^A + N_{X,t}^{A*}\right)^{\frac{1-\psi}{1-\theta}} + \phi^B \left(N_t^B + N_{X,t}^{B*}\right)^{\frac{1-\psi}{1-\theta}}\right]^{\frac{1}{1-\psi}} x_t.$$

The recent open economy empirical papers have documented a very persistent shock (near unit root) with zero transmission across countries.[26] Thus, we use following very persistent process without spill-over: $\xi_{AA} = 0.99$ and $\xi_{AA^*} = 0$ in Equation (2.32). Since there is no productivity spill-over, cross-country comovements are due mainly to endogenous mechanisms. With spill-over as in [Backus et al., 1992], foreign households expect increases in foreign productivity after home positive productivity shocks. Thus, the shock process with zero transmission $\xi_{AA^*} = 0$ generates lower consumption correlation between home and foreign countries than the shock process with spill-over: $\xi_{AA^*} > 0$.

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[25] Alternatively, the industry's real variables can be defined by $x_{R,t}^s = \left[\phi^A \left(N_t^A + N_{X,t}^{A*}\right)^{\frac{1-\psi}{1-\theta}} + \phi^B \left(N_t^B + N_{X,t}^{B*}\right)^{\frac{1-\psi}{1-\theta}}\right]^{\frac{1}{1-\psi}} x_t^s$, which is based on the aggregate price index rather than the industry price index. There are no qualitative changes in my main simulation results between two methods constructing industry-level real variables.

[26] See [Baxter, 1995] and [Baxter and Farr, 2005] for the details.

Based on [Ambler et al., 2004], we consider two cases. Case I represents twenty industrialized countries. Case II represents the U.S. and nine other countries – Australia, Austria, Canada, France, Germany, Italy, Japan, Switzerland, and the United Kingdom which is called the BKK sample. ([Backus et al., 1992, Backus et al., 1995] use the sample.) International business cycles are more correlated in Case II than in Case I regarding GDP, consumption, labor, and productivity. Appendix B documents the details of the data set. In the models, there are only two industries. Thus, to match the coefficients $\hat{b}_1$ in Column (2) of Tables 2.3 – 2.4 and 2.6 – 2.7, We calculate slopes as follows. For variable x, its slope is defined by $\left(x^A - x^B\right) / \left(\ln \alpha^A - \ln \alpha^B\right)$ that quantifies the impacts of the sloping marginal cost curve on the variable x. In Cases I and II, the models with $\eta_E = 2$ and $\eta_E = 3$ approximately replicate the volatility of number of entrants in the U.S. data, respectively. Thus, we consider $\eta_E = \{2,\ 2.5,\ 3\}$.

The conventional international business cycle models assume the low correlation of shock innovations, which is 0.25 – 0.3. However, the recent empirical studies have found that the correlation is much lower than 0.25. [Ambler et al., 2004] document the unweighted average of the BKK sample countries' correlation of the "Solow residual" measure of productivity (using only labor) with the U.S. as 0.25. [Baxter and Farr, 2005] document that the median of sample countries' correlations is 0.18 where they use both labor and capital.[27] We choose $\rho_C = 0.2$ in Case II. The unweighted average of pairwise cross-country correlations of productivity among twenty industrialized countries is 0.16 (using only labor) and 0.09 (using both labor and capital when available). We set $\rho_C = 0.1$ in Case I.

Cross-Country Business Cycles

Canonical open macro models need additional positive interdependence channels to solve the quantity anomaly. Positive home productivity shocks directly promote new firm entry (or more investments in capital) in the home country due to high profits. The large entry with costs (or more investments in capital) induces cross-country resource shifts from the foreign country to the home country. The strong incentive for resource allocation to the more productive economy is why both standard international real business cycle model and new trade open macro models have low GDP comovements problems.

Figure 2.5 describes the impacts of marginal cost curve heterogeneity on cross-country correlations of GDP and labor. In both Case I and II, the models with heterogeneous sloping marginal cost curves better

[27] Their sample countries are 10 OECD countries.

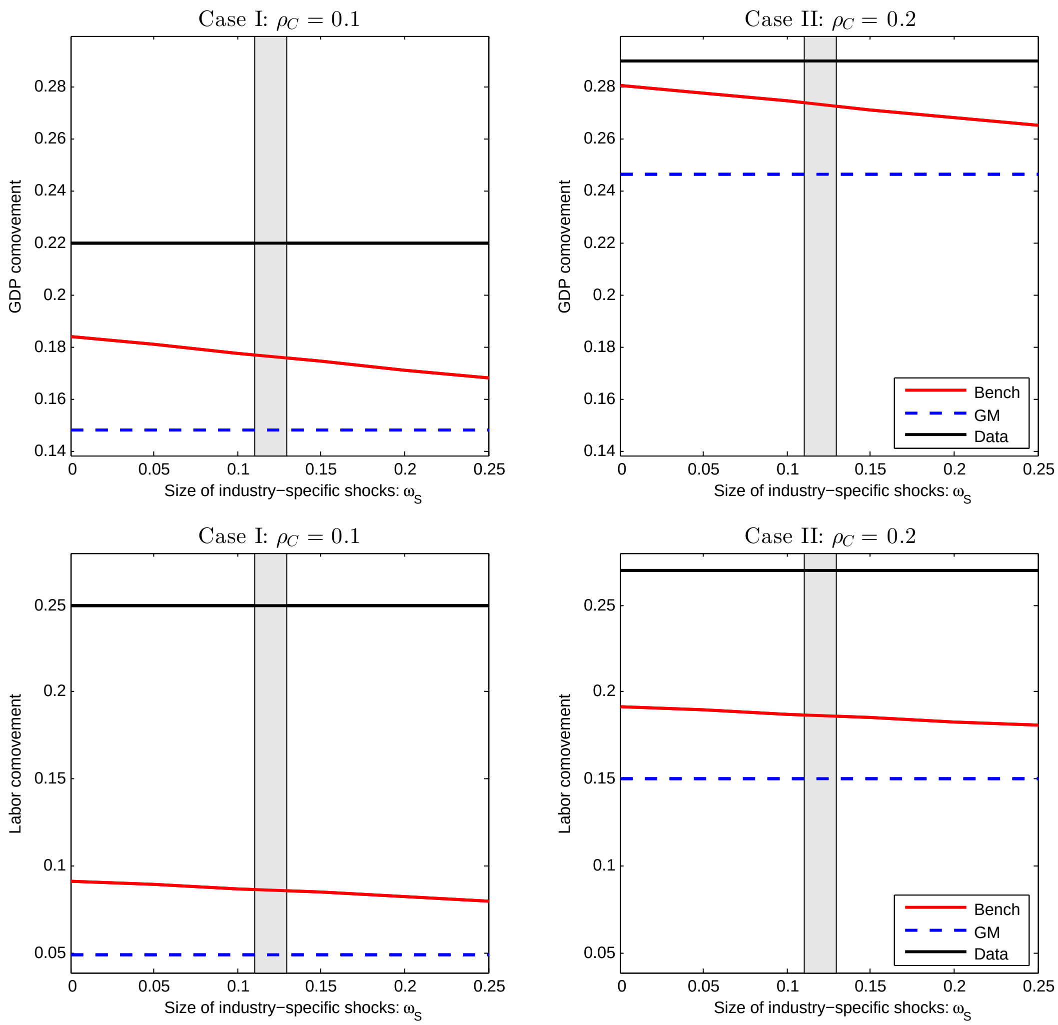

Figure 2.5: Cross-country GDP and Labor Comovement with Industry-specific Shocks

Notes: The red lines, the blue dashed lines, and the black lines are Benchmark ($\alpha^A = 0.85$ and $\alpha^B = 1.15$), GM ($\alpha^A = \alpha^B = 1$) models and the data of [Ambler et al., 2004], respectively. The shaded area is the range of observed ω_S in [Foerster et al., 2011]. The friction of entry is $\eta_E = 2.5$.

reproduce observed international comovements than the models with homogeneous flat marginal cost curves. As discussed in Section 2.5.2, industry heterogeneity of marginal costs yields more correlated GDP and labor across countries through within-firm market interdependence channels.

The simulations consider the following range of industry-specific shocks: $\omega_S \in [0, 0.25]$. The shocks directly make a more productive economy more concentrated in industries where a favorable industry-specific shock is realized. Thus, the industry-specific shocks can dampen our model's propagation mechanisms generating GDP comovements. Figure 2.5 describes the relationship between GDP comovements and industry-specific shocks. The shock process are constructed in such a way that the size of industry-specific shocks have no effect on the second moments of model with identical industries. Thus, the blue dashed lines (GM model) are straight. The red lines illustrate that introducing industry-specific shocks in the model with different cost structures across industries worsen discrepancy between theory and data related to cross-country comovements of GDPs. However, the benchmark model is better than the model with homogenous flat marginal cost curves even though there are sizable industry-specific shocks.

Figure 2.6 illustrates the impacts of the aggregate slope of marginal cost curves on GDP comovements. According to my estimation results, the weighted average of α in the US manufacturing industries is between 1.068 and 1.254.[28] In the US economy, the size of manufacturing industries is around 12$\%$ (valued added $\%$ of GDP). If the other industries face no economies of scale (constant returns to scale), then the aggregate US economy's marginal cost coefficient is between 1.01 and 1.03. To get these number in my model, the range of the size of Industry B, ϕ^B, is 0.53 – 0.61. Decreasing and increasing marginal cost curves generate positive and negative within-firm level interdependence, which increase and decrease comovements across domestic and export markets, respectively. Thus, a large size of Industry B implies strongly correlated GDPs and labors across countries.

Within-country International Business Cycles

The results of my simulations are summarized in Table 2.10. Panel A and B report my model's aggregate- and industry- level international business cycle properties, respectively. In each case, the table reports the low, medium, and high entry frictions for both conventional (GM) models with identical flat marginal cost curves and Benchmark models with heterogeneous sloping marginal cost curves. The results of Cases I and

[28] See Table 1.1 and C.2 for the results of i) instrumented vs uninstrumented and ii) benchamrk vs alternative.

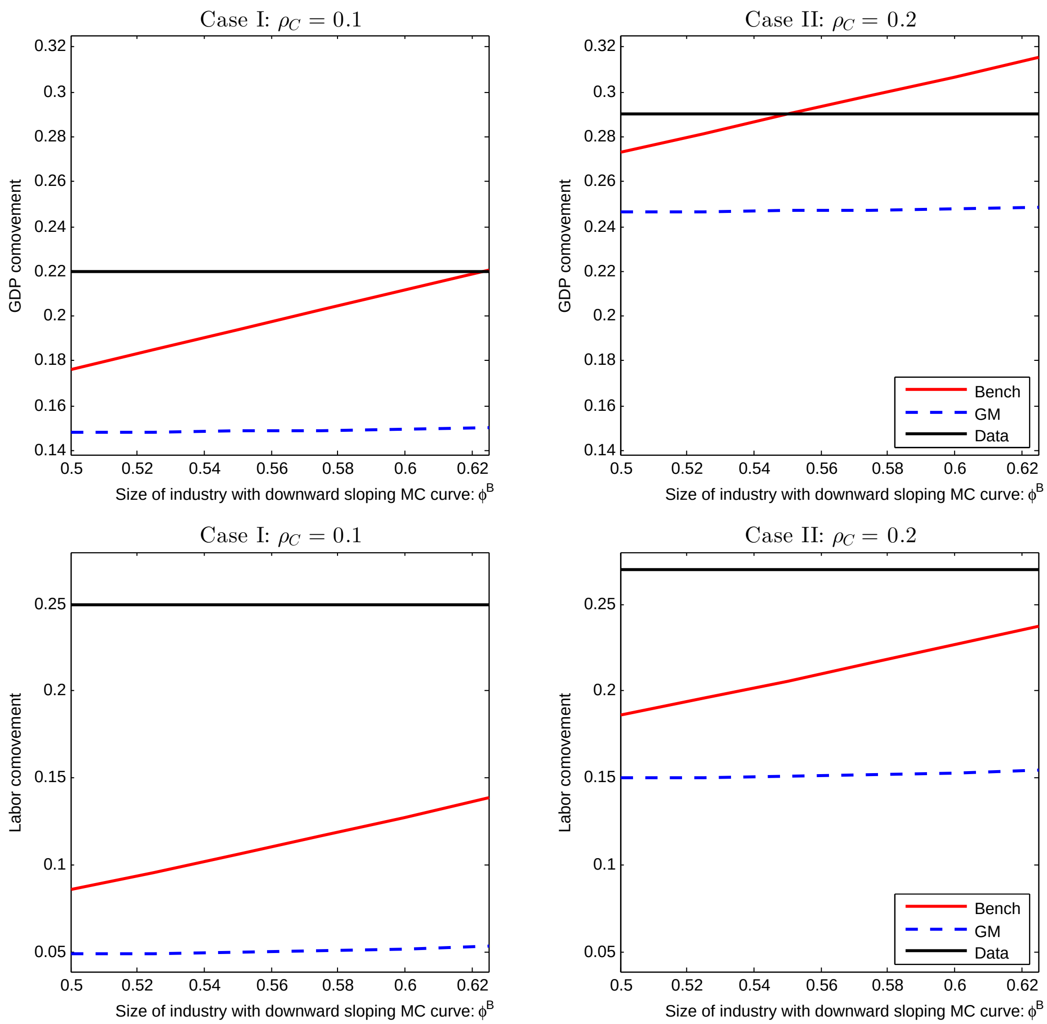

Figure 2.6: Cross-country GDP and Labor Comovement over Economies of Scale

Notes: The horizontal axis is the size of industry with downward sloping marginal cost curves: ϕ^B. Since $\alpha^A < \alpha^B$, $\phi^B > 0.5$ causes the aggregated marginal cost curve to be downward sloping, which implies economies of scale in the aggregate economy. The red lines, the blue dashed lines, and the black lines are Benchmark ($\alpha^A = 0.85$ and $\alpha^B = 1.15$), GM ($\alpha^A = \alpha^B = 1$) models and the data of [Ambler et al., 2004], respectively. The size of industry-specific shocks is $\omega_S = 0.12$. The friction of entry is $\eta_E = 2.5$

Table 2.10: International Business Cycle (within-country): Data and Simulated Moments

	US Data	Case I: $\rho_C = 0.1$						Case II: $\rho_C = 0.2$					
		GM			Benchmark			GM			Benchmark		
	η_E	2	2.5	3	2	2.5	3	2	2.5	3	2	2.5	3
Panel A: Aggregate-level International Business Cycle													
Volatility: standard deviation %													
GDP	1.54	1.57	1.56	1.55	1.51	1.50	1.50	1.57	1.57	1.56	1.52	1.51	1.51
Volatility: standard deviation relative to GDP													
Consumption	0.82	0.97	0.97	0.97	0.96	0.96	0.97	0.96	0.97	0.97	0.96	0.96	0.96
Investment	4.20	3.81	3.68	3.57	3.60	3.48	3.36	3.62	3.50	3.39	3.42	3.30	3.19
Labor	0.62	0.73	0.72	0.72	0.74	0.73	0.73	0.72	0.72	0.71	0.73	0.73	0.73
Export	2.64	1.91	1.87	1.83	1.67	1.64	1.61	1.87	1.84	1.80	1.65	1.62	1.60
Import	3.14	1.81	1.78	1.75	1.57	1.54	1.52	1.78	1.76	1.73	1.56	1.54	1.52
# of Entrants	3.28	3.83	3.70	3.59	3.59	3.48	3.38	3.64	3.52	3.40	3.41	3.31	3.22
Cyclicality: correlation to GDP													
Consumption	0.86	1.00	0.99	0.99	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Investment	0.91	0.78	0.78	0.77	0.79	0.79	0.78	0.77	0.77	0.77	0.78	0.78	0.78
Labor	0.81	1.00	1.00	0.99	0.99	0.99	0.99	1.00	1.00	1.00	1.00	1.00	0.99
Export	0.29	0.06	0.09	0.12	0.14	0.18	0.21	0.15	0.18	0.21	0.24	0.27	0.30
Import	0.75	0.89	0.90	0.90	0.93	0.93	0.93	0.90	0.91	0.91	0.94	0.94	0.94
# of Entrants	0.58	0.78	0.77	0.77	0.79	0.79	0.79	0.77	0.77	0.77	0.79	0.79	0.78
Panel B: Industry-level International Business Cycle													
Volatility: Slope of log percent standard deviation													
Output	0.73				0.21	0.30	0.37				0.24	0.32	0.38
Volatility: Slope of log standard deviation relative to industry output													
Export	-0.52				-6.68	-6.74	-6.75				-6.50	-6.55	-6.54
Import	-0.69				-6.12	-6.08	-6.01				-5.92	-5.88	-5.82

Continued on next page

Table 2.11: Table 2.10 – continued from previous page

		Case I: $\rho_C = 0.1$						Case II: $\rho_C = 0.2$					
	US Data	GM			Benchmark			GM			Benchmark		
	η_E	2	2.5	3	2	2.5	3	2	2.5	3	2	2.5	3
Cyclicality: Slope of correlation to GDP													
Output	0.23				0.44	0.41	0.38				0.38	0.35	0.33
Export	0.37				0.02	0.12	0.20				0.04	0.13	0.20
Import	0.26				0.35	0.27	0.20				0.32	0.24	0.18

Notes: All variables are HP filtered. The aggregate US data statistics are quarterly and seasonally adjusted. The aggregate-level US quarterly data is from Federal Reserve Economic Data except for the number of entrants. The sample period is from 1960:q1 to 2000:q4, that is the same as in [Ambler et al., 2004]. The number of entrants data are from private sector establishment births in Bureau of Labor Statistics database. The sample period is from 1993:q2 to 2016:q4. The relative standard deviation of number of entrants is relative to standard deviation GDP from 1993:q2 to 2016:q4. The industry-level data are from Section 2.2. The slopes are the coefficients of economies of scale derived from marginal costs in regressions. (See Column (2) in Tables 2.3 – 2.4 and 2.6 – 2.7 for the details.)

II are indistinguishable except for cyclicality of exports, which implies that cross-country shock correlations have limited effects on aggregate variables' dynamics and second moments.

The first and second parts of Panel A in Table 2.10 describe the volatilities of the aggregate macro and trade flows, where allowing industry cost heterogeneity plays a minor role. The model overpredicts the standard deviation (relative to aggregate GDP) of consumption and labor and underpredicts that of exports and imports. Although the model successfully generates less volatile consumption than GDP, the standard deviation (relative to aggregate GDP) of consumption is larger than in the data. That is because a near-unit root shock without spill-over and GHH preference lowers consumption smoothing. Thus, consumption becomes very persistent and volatile.[29] In the model, exports and imports have very similar standard deviations, and they are smaller than in the U.S. data. As in [Ghironi and Melitz, 2005], an individual firm's export decision depends on fixed export costs. For tractability, we omit sunk export cost. While

[29] See [Ghironi and Melitz, 2005] for differences between a near-unit root shock without spill-over and a persistent shock with spill-over introduced by [Backus et al., 1992]. See [Raffo, 2008] for details of GHH preference in international business cycle models.

[Alessandria and Choi, 2007] find that the export cost structure in models plays a limited role in business cycle patterns of net exports, introducing sunk export costs would generate more persistent export and import flows. Thus, adding sunk export costs would be helpful to correct the low volatilities of trade flows. More importantly, the model fails to reproduce the larger volatility of imports than that of exports. In the model, extensive margins are more important in exports than in imports, but intensive margins are more important in imports than in exports. Since the number of firms changes slowly, the export process is more persistent than the import process. Thus, exports have a relatively large standard deviation in the model.

The last part of Panel A reports cyclical properties within a country. All models successfully reproduce the observed patterns that imports are more procyclical than exports in which cost heterogeneity and entry frictions play a vital role. First, allowing industry cost heterogeneity enhances the model's ability to reproduce quantitatively better cyclical patterns of export. In both Cases I and II, the models with homogeneous industries tend to generate weakly procyclical exports, which is one of the problems in GM models. Heterogeneous sloping marginal cost curves in Benchmark models make exports more procyclical – more consistent with the data – than in models with a homogeneous linear cost function through a within-firm market interdependence channel. Second, models with larger entry frictions reproduce more procylical exports and imports than models with smaller entry frictions. During a boom, great firm entry implies large terms of labor appreciation (high costs in the more productive economy). Thus, firms loose their competitiveness in both domestic and export markets due to high production costs. Firm entry frictions mitigate these extensive margin channels. This mechanism explains why entry frictions increase the procyclicality of trade flows in new trade open macro models regardless of cost structure.

In the data, consumption and labor are strongly procyclical. In Panel A, all models generate more strongly correlated consumption and labor to GDP than the data. Indeed, correlations with GDP are near perfect in the model. As discussed above, a near unit root shock lowers consumption smoothing. Thus, consumption moves in the same direction as income (GDP). For tractability, a representative household supplies labor. This and the GHH preference imply that labor supply depends only on wages. Hence, labor is very strongly correlated to GDP.

Panel B in Table 2.10 illustrates how properties of heterogeneous international business cycles across industries change when we vary the firm entry friction. The models with plausible entry frictions capture the qualitative patterns in the six-digit NAICS U.S. manufacturing industries. Section 2.2 documents that volatility of exports and imports decreases, but that of output increases in economies of scale derived from marginal costs. Further, industry output, exports, and imports are more procyclical in industries with large α than in industries with small α. The results of Case I and II are quantitatively very similar and qualitatively equivalent, which implies that cross-country shock correlations have no major effect on industry-level business cycle properties. Despite success at reproducing the qualitative patterns of the industry-level business cycle, the models are less successful from the quantitative perspectives. The empirical analysis reported in Column (2) of Tables 2.3 – 2.5 and 2.6 – 2.7 indicate that the models with $\eta_E = 2.5$ and 3 succeed in generating the slopes of cyclicality measures of output, exports, and imports. However, all models fail to generate the slopes of volatility measures within the 99$\%$ confidence intervals. These quantitative failures could be caused by the simplicity of the model. The model contains only two industries, and uses only aggregate productivity shock.

During a home boom, cost advantages due to economies of scale increase Industry B's output more than Industry A's output. Thus, industries with large α have more volatile and procyclical output than do industries with small α. In industries with decreasing marginal costs (Industry B), world demands are relatively more important than in industries with increasing marginal costs (Industry A) because domestic and export market demands are complements and substitute in industry B and A, respectively. Thus, international goods trade dampens demand channels of domestic shocks in Industry B, but amplifies in Industry A. Hence, exports and imports are fluctuated less in Industry B than in Industry A. That channel serves to lower the slope of the output volatility measure in the models.

Section 2.5.2 explains why Industry A has less procyclical production than Industry B. The models reproduce the empirical observation that the slope of the export cyclicality measure increases in entry frictions. As we discussed in Section 2.5.2, there are two channels: cost advantages and export gains. During a home boom, the cost advantage channel increases exports in Industry B relative to Industry A, and is large when firms enter slowly. The export gain channel generates incentives for the home country to be concentrated in Industry A rather than Industry B, which depends on reallocations of firms across industries. Hence, increasing entry frictions causes the first channel to dominate the second channel. These channels affect imports in the opposite way. The slopes of the cyclicality of exports and imports increases and decreases in entry frictions, respectively.

2.6 Concluding Remarks

An important question in international trade and macroeconomics has been a role of economies of scale. However, formal international macroeconomy models generally neglect their sources. This paper distinguishes economies of scale into sloping marginal cost curves and nonproduction costs. This chapter finds that they are differently associated with aggregate and industrial international business cycle fluctuations. These results are intuitive because a flat marginal cost curve makes the domestic and export profits to be linearly separable. Thus, there is no within-firm link between domestic demand and exports even a firm serves in both domestic and export markets. However, a sloping marginal cost curve breaks the separability. It causes that firm's decisions in one market change its marginal costs of production that have impacts on its decisions in the other market, which play a role as cross-industry and cross-country transmission mechanisms.

This chapter provides a framework to study the marginal cost heterogeneity and its implications for the industry- and aggregate-level dynamics. The within-firm market interdependence across domestic and export markets that arises from different slopes enhances the internal propagation mechanisms of the model. The calibrated model reproduces the industry-level business cycles that are consistent with the U.S. industry-level data. Also, it delivers more strongly correlated business cycles across countries These findings can be interpreted as evidence that sloping marginal cost curves and their variations across industries improve our understanding of the international business cycle.

Chapter 3

INDUSTRY HETEROGENEITY AND INTERNATIONAL TRADE PATTERNS: THEORY AND EMPIRICS

3.1 Introduction

Do large countries always have advantages in all manufacturing industries when compared to smaller countries? Small countries have long feared damage to manufacturing industries from international trade with larger neighbors. However, in spite of their relatively small size, some countries such as Canada, Singapore, South Korea, Sweden, and Taiwan have an emphasis on manufacturing, mostly because they are highly concentrated in some specific industries.[1] What industry characteristics determine the impact of country size on trade surplus and location of industries (called the home market effect)? This paper investigates how the home market effects vary with industry characteristics, especially, economies of scale and product differentiation that are the key building blocks of new trade theory.

The new trade theory introduced by [Krugman, 1979, Krugman, 1980] explains intra-industry trade based on economies of scale and differentiated products. One of the main predictions of that theory is the home market effect that is an association between country size and trade surplus in industries, in other words, a concentration of certain industries in a large country. The conventional home market effect literature such as [Krugman, 1980], [Helpman and Krugman, 1985], and [Davis, 1998] focuses on very broadly defined industry level analysis: manufacturing sector (monopolistic competition and economies of scale) and outside sector – non-manufacturing or agricultural sector – (perfect competition without economies of scale).[2] The manufacturing sector has larger economies of scale and its goods are more differentiated than those in the outside sector. Hence, they do not study pure impacts of economies of scale and product differentiation on the home market effect.

To investigate pure impacts of industry characteristics (especially, economies of scale and product differentiation) on home market effects, Section 3.2 constructs a new trade model with various types of demand-

[1] Their ranks in the 2016 Global Manufacturing Competitiveness Index (GMCI) are 9, 10, 5, 13, and 7, respectively.

[2] See [Feenstra et al., 1998], [Davis and Weinstein, 1999, Davis and Weinstein, 2003], [Head and Ries, 2001], and [Crozet and Trionfetti, 2008] for empirical test of the home market effect based on broadly defined industries.

and supply-side heterogeneity across industries.[3] In [Hanson and Xiang, 2004], infinitely many industries face different demand-side characteristics: elasticity of substitution across goods, trade costs, and expenditure share. The model extends [Hanson and Xiang, 2004]'s multi-industry new trade model to allow supply-side heterogeneity such as different slopes of marginal cost curve, fixed costs, and input intensities across industries. Further, this chapter tests predictions of this model using empirical specifications based on gravity equations.

One of the key features of the theoretical model and its empirical specification is allowing sloping marginal cost curves: an individual firm's marginal costs can be increasing or decreasing in its output. Thus, economies of scale are derived not only from fixed costs but also from a sloping marginal cost curve. This allows the investigation of the impacts of marginal and fixed costs structures on the home market effect. Due to modeling tractability, conventional new trade models such as [Krugman, 1979, Krugman, 1980], [Melitz, 2003], and [Hanson and Xiang, 2004] widely assume a linear cost function: a flat marginal cost curve with fixed costs. Thus, economies of scale are derived only from fixed costs. This assumption has several drawbacks in multi-industry models. First, fixed costs cannot generate dis-economies of scale, but some industries' average costs increase in quantity both in my data and in the previous empirical literature such as [Basu and Fernald, 1997], [Chang and Hong, 2006], and, [Lee, 2007]. Second, a large dispersion of economies of scale across manufacturing industries is mainly explained by marginal costs rather than by fixed costs quantitatively in the data. Third, a flat marginal cost curve implies that an individual firm's decisions in domestic and export markets are separated which is not supported by recent firm-level studies such as [Vannoorenberghe, 2012], [Soderbery, 2014], [Berman et al., 2015], and [De Loecker et al., 2016].[4] Last, my theoretical and empirical findings show that the sloping marginal cost curve plays a crucial role in industry-level home market effects.

The model predicts that the influence of country size varies with industry characteristics on international trade as follows. Industries with large economies of scale, more differentiated products, and low labor

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[3] In line with [Krugman, 1980], the home market effect in an industry means that a large country is more concentrated in the industry than a small country. The opposite case is called the inverse home market effect. We use the home market effect as impacts of country size on concentration (trade surplus). Thus, the inverse home market effect means the negative home market effect. The case with inverse home market effects in both industry A and B, but it is stronger in industry A than in industry B, implies a larger negative home market effects and a smaller home market effects in industry A than in industry B.

[4] Given a sloping marginal cost curve, domestic and export markets are not separable at the firm level. Suppose that marginal costs decrease when an individual firm produces more. Increasing exports lowers marginal costs and increases profits and sales in both domestic and export markets.

input intensity are concentrated in large countries than industries with small economies of scale and high labor input intensity.[5] In other words, the home market effect increases in economies of scale and product differentiation but decreases in labor input intensity. The important thing is that only economies of scale derived from sloping marginal cost curves play such role. Economies of scale derived from fixed costs have no impact on the direction of industry-level home market effect. As in [Hanson and Xiang, 2004] and [Laussel and Paul, 2007], the home market effect increases in the degree of product differentiation, even though supply-side heterogeneity dampens the impacts of product differentiation.

To test the prediction about the relationship between industry characteristics and home market effects, we estimated the home market effect as the first step. A home market effect coefficient is estimated by a coefficient of relative country size, measured by real Gross Domestic Products (GDP), in a cross-country difference-in-difference gravity equation for each industry. To avoid difficulties in measuring trade costs, we use the cross-country difference-in-difference gravity equation, which cancels out symmetric variables in the gravity equation.[6] We estimate the equation by using 4-digit Standard Industrial Classification (SIC) U.S. manufacturing industry bilateral trade data from 1995 through 2014 for the top 25 trade partner countries of the U.S. with the exception of Hong Kong, Taiwan, and Saudi Arabia. The data contain 1,467,960 observations and cover 397 manufacturing industries and 462 country pairs.

The second step estimates how the home market effect coefficient varies with industry characteristics: links between the home market effect and industry characteristics such as economies of scale, product differentiation, capital input intensity, and good classification. Additionally, we decompose sources of economies of scale into marginal and fixed costs as in Chapter 1. We estimate economies of scale and introduce proxies for degree of product differentiation. Measurement errors and proxies in the explanatory variables cause bias in OLS estimates in 3.5. To fix the problem, Section 3.6 introduces instrumental variables (IVs) for the marginal cost coefficient and the product differentiation measure. Conveniently, other measurements of them are as good a candidate as the instrument itself.[7]

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[5] A country size is measured by real GDP. In the model, one source of large GDP is large factor endowments.

[6] For US trade partner k and j countries, my cross-country difference-in-difference equation yields that the dependent variable – cross-country difference of export-import ratio – follows:

$$\ln\left(\frac{\text{Export of } k \text{ to USA}}{\text{Import of } k \text{ from USA}}\right) - \ln\left(\frac{\text{Export of } j \text{ to USA}}{\text{Import of } j \text{ from USA}}\right),$$

for each industry.

[7] We calculate economies of scale derived from marginal costs based on [Lee, 2007]. He estimates 2-digit SIC level industries'

Instrumented estimates support the main theoretical predictions related to economies of scale from marginal costs and product differentiation. Product differentiation and economies of scale derived from a sloping marginal cost curve have positive impacts on the home market effect coefficient. Further, IV estimates reject that labor input intensity is positively associated with home market effects. Many regression models indicate the statistically significant trend that the home market effect increases when an industry is less labor intensive.

This paper contributes to a better understanding of international trade patterns of narrowly defined industries. The theoretical and empirical findings suggest that two fundamental elements of the new trade model - economies of scale and product differentiation - are crucial to understanding narrowly defined industry-level international trade patterns. My findings cast doubt on using linear cost functions in multi-industry trade models. Sloping marginal cost curve plays a vital role in heterogenous home market effects across industries theoretically and empirically.

The recent home market effect literature has addressed issues of a link between specific demand-side features of industries and the home market effect. [Hanson and Xiang, 2004] and [Laussel and Paul, 2007] investigate the role of demand-side characteristics. [Laussel and Paul, 2007] develop a two-industry model in which the degree of product differentiation is different across industries. They conclude that larger countries become a net exporter of more differentiated goods. [Hanson and Xiang, 2004] construct a new trade model with a continuum of industries allowing different trade costs and elasticities of substitution across industries. Their empirical results support the theoretical prediction: industries with low trade costs and more differentiated goods are concentrated in larger countries. [Pham et al., 2014] re-exam [Hanson and Xiang, 2004]'s empirical findings that were not robust.

This chapter is also closely related to the literature has examined the role of scale economies in international trade. [Antweiler and Trefler, 2002] document that allowing increasing returns to scale in production significantly increases the ability to predict international trade flows. [Anderson et al., 2016] investigate links between scale effects and exchange rate pass-through. [Grossman and Rossi-Hansberg, 2010], [Lyn and Rodriguez-Clare, 2013], and [Kucheryavyy et al., 2016] study implications of national- or industry-level external economies of scale for trading economies. A number of recent international trade and busi-

returns to scale by using the Annual Survey of Manufactures plant-level data. We use two types of product differentiation proxy. The first is based on [Rauch, 1999]'s product classification. He divides 4-digit Standard International Trade Classification (SITC) commodities into an organized exchange, reference priced, and differentiated. The second proxy is constructed by a number of 10 digit Harmonized System (HS) categories in each industry.

ness cycle papers deal with internal economies of scale derived from marginal costs as in this paper. [Vannoorenberghe, 2012] constructs a trade model following [Melitz, 2003] with increasing marginal cost to explain firm-level volatilities. Chapter 2 introduces multi-industries to a new trade open macro model developed by [Ghironi and Melitz, 2005] to investigate industrial international business cycles.

[Panagariya, 1981]'s and [Holmes and Stevens, 2005]'s theoretical works imply that the role of economies of scale on international trade patterns is robust in various market structures. [Holmes and Stevens, 2005] show that goods with small economies of scale are not traded. larger countries become a net exporter in industries with large economies of scale. Their mechanism is different to the original spirit of home market effect, because no entry is assumed.[8] [Panagariya, 1981]'s comparative advantage model predicts that a small country is specialized in industries with small economies of scale.

This chapter is organized as follows. Section 3.2 constructs the multi-industry two-country new trade model in which industry heterogeneity predicts different home market effects across industries. Section 3.3 presents an empirical specification based on the gravity equation to test the theory. Section 3.4 describes data and variables. Sections 3.5 and 3.6 document the home market effect varying with industry characteristics based on OLS and IV estimates, respectively. The last section concludes.

3.2 Theoretical Framework

This section constructs a multi-industry new trade model based on [Hanson and Xiang, 2004]. They extend [Krugman, 1979, Krugman, 1980]'s new trade model where infinitely many industries face different demand-side characteristics: elasticity of substitution across goods, trade costs, and expenditure share. The key difference between their model and my model is that we allow cost-side heterogeneity across industries. In each industry, firms are identical. The cost structure of individual firms – marginal costs, fixed costs, and input cost shares – differs across industries. The model allows a sloping marginal cost curve where marginal costs of firm vary with its production level. Additionally, we consider two factors in production – labor and capital – to investigate the impact of input share on trade. By contrast, [Hanson and Xiang, 2004] consider only labor as a factor in production.

In this model, two countries are designated: home and foreign. We denote foreign variables with an asterisk. Home country has greater factor endowments than foreign, meaning that home is larger than

[8] In [Holmes and Stevens, 2005], the number of products (firms) in each industry is fixed. The critical mechanism of home market effect is a concentration of firms in larger countries to enjoy location advantages of large markets.

foreign. There are infinitely many industries. Industries have different market structures such as a shape of marginal costs, elasticity of substitution across goods, input intensity, and so on. These characteristics of each industry are identical across the countries: home and foreign. In each industry, identical individual firms face monopolistic competition. The number of firms is endogenously determined by a free entry condition. Aggregate trade is balanced between the two countries, but an industry's net exports can be positive or negative.

There are two factors in production: labor and capital. In each country, all factor markets are perfectly competitive. Without loss of generality, suppose that the home country is larger than the foreign country: $L > L^* > 0$ where L and L^* are the labor endowments in the home and foreign, respectively. In this model, there is no immigration; the endowments are not tradable. In contrast, capital can be traded without frictions and trade costs. Thus, the home and foreign prices of capital denoted by r and r^* are identical across countries. K and K^* are the initial capital endowments of the home and foreign countries, respectively. The model is static and focuses on the long-run equilibrium. Thus, we assume that the initial home and foreign capital endowments guarantee zero net capital flows in equilibrium. Zero profit (free entry condition) implies that the home and foreign country income is $Y = wL + rK$ and $Y^* = w^*L^* + r^*K^*$ in which w and w^* are the home and foreign wage, respectively. Without loss of generality, the foreign income is normalized by one: $Y^* = 1$.

Assumption 1. *Home and foreign are a large and small country, respectively.*

S1. Foreign GDP is normalized by one: $Y^* = 1$.

S2. Home is larger than foreign: $L > L^*$.

S3. Capital is internationally tradable without costs: $r = r^*$.

S4. K and K^* satisfy the zero net-capital flow.

All cross-country differences are derived from endowment heterogeneity. All other features of home and foreign countries are identical. Hence, the home country is large, and foreign country is small in terms of income (GDP): $Y > 1$.

There is a continuum of industries indexed by $s \in [0, 1]$ where each industry's market is monopolistically competitive. All demand- and supply-side characteristics of each industry are identical in home and foreign countries. Consumers' expenditure shares in industry s are constant, denoted by $\phi(s) \in (0, 1)$ satisfying

$\int_0^1 \phi(s)\, ds = 1$. For given home and foreign income, the home and foreign consumers' expenditure in industry s are $\phi(s) Y$ and $\phi(s)$, respectively. Each industry has a continuum of firms with mass $n(s)$. An industry has differentiated products with constant elasticity of substitution across products $\theta(s) > 1$. Then, the markup is $\mu(s) = \theta(s) / [\theta(s) - 1]$. The iceberg export cost denoted by $\tau(s) > 1$. To sell one unit of good in an export market, a firm has to ship $\tau(s)$ unit of good. Then, the effective trade costs, denoted by $x(s) > 1$, satisfy $x(s) = [\tau(s)]^{\theta(s)-1}$. As in the previous literature such as [Hanson and Xiang, 2004], $x(s)$ is given rather than $\tau(s)$.

To focus on industry-level analysis, we assumed that all firms are identical in industry s. Thus, we do not introduce the firm index. For industry s, an individual firm's total and marginal cost functions $tc(s)$ and $mc(s)$ are given by

$$tc(s) = \left[r^{\vartheta_k(s)} w^{\vartheta_l(s)}\right] [q(s)]^{1/\alpha(s)} + w f_C(s) \tag{3.1}$$

$$\text{and} \quad mc(s) = \frac{1}{\alpha(s)} \left[r^{\vartheta_k(s)} w^{\vartheta_l(s)}\right] [q(s)]^{1/\alpha(s)-1}, \tag{3.2}$$

where $q(s)$ is the quantity produced, and $f_C(s) > 0$ is the fixed cost: non-production labor in terms of labor unit. $\vartheta_l(s)$ and $\vartheta_k(s)$ are labor and capital input cost share, respectively. Thus, they are non-negative and satisfy $\vartheta_l(s) + \vartheta_k(s) = 1$. $\alpha(s) \in (0, \mu(s))$ represent a sloping marginal cost curve, which we will call the marginal cost coefficient. We assume that the coefficient is lower than the markup for a unique finite solution: $\alpha(s) < \mu(s)$. The marginal cost function is increasing, constant, or decreasing if $\alpha(s) \lesseqgtr 1$. Additionally, we assume that $[1 - \vartheta_l(s)]\, \alpha(s) < 1$.[9]

Assumption 2. *[Parameter restrictions] For all $s \in [0, 1]$,*

P1. $\theta(s) > 1$. Then, $\mu(s) > 1$.

P2. $\phi(s) \in (0, 1)$. and $\int_0^1 \phi(s)\, ds = 1$

P3. $\alpha(s) \in (0, \mu(s))$

P4. $f_C(s) > 0$

P5. $\vartheta_l(s)$, $\vartheta_k(s) \in (0, 1)$ and $\vartheta_l(s) + \vartheta_k(s) = 1$

P6. $[1 - \vartheta_l(s)]\, \alpha(s) < 1$

P7. $x(s) > 1$

[9] In my data, all 4-digit SIC manufacturing industries satisfy the conditions.

An individual firm's inverse elasticity of total costs measures a degree of economies of scale.

$$\gamma(s) \overset{\text{def}}{=} \frac{tc(s)}{q(s)} \frac{1}{mc(s)} = \alpha(s) \left[1 + \tilde{f}_C(s)\right], \tag{3.3}$$

where $\tilde{f}_C(s)$ is the ratio of non-production costs to production costs.[10] Economies of scale exist if and only if $\gamma(s) > 1$. Thus, there are two sources of economies of scale: marginal costs $\alpha(s)$ and fixed costs $\tilde{f}_C(s)$ in industry s.

Under Assumption 2, an individual firm's profit maximization problem has a unique interior solution for given aggregate variables. $p(s)$ denotes a domestic real price of each variety of goods. Then, a firm's profit maximization yields well-known price setting that the price is a constant markup over marginal cost:

$$p(s) = \mu(s) mc(s) = \left[\frac{\mu(s)}{\alpha(s)}\right] \left[r^{\vartheta_k(s)} w^{\vartheta_l(s)}\right] [q(s)]^{1/\alpha(s)-1}. \tag{3.5}$$

The export price is $[x(s)]^{\frac{1}{\theta(s)-1}} p(s)$ because its marginal cost is $[x(s)]^{\frac{1}{\theta(s)-1}} mc(s)$ in its export market. In each industry s, firms enters until the profit of each firm becomes zero. A free entry condition holds:

$$\left[1 - \frac{\alpha(s)}{\mu(s)}\right] p(s) q(s) = w f_C(s), \tag{3.6}$$

where the left hand side is the firm's revenue minus its variable costs, and the right hand side is its fixed costs. Equations (3.5) and (3.6) imply that the relative price and marginal cost between home and foreign countries satisfies

$$\frac{p(s)}{p^*(s)} = \frac{mc(s)}{mc^*(s)} = \left(\frac{w}{w^*}\right)^{1-[1-\vartheta_l(s)]\alpha(s)} \left(\frac{r}{r^*}\right)^{\vartheta_k(s)\alpha(s)}. \tag{3.7}$$

Costless capital mobility across countries implies equalization of the capital rental rate: $r = r^*$. Thus, the terms of labor (w/w^*) determines the relative price and marginal costs. The impact of terms of ratio on the relative price and marginal costs are different across industries, and are associated with the cost structures: $\vartheta_l(s)$ and $\alpha(s)$.

For convenience, define $d(s)$ and $d^*(s)$ by

$$d(s) = \frac{n(s)}{n(s) + n^*(s) \left[\frac{p(s)}{p^*(s)}\right]^{\theta(s)-1} / x(s)} \quad \text{and} \quad d^*(s) = \frac{n(s)}{n(s) + n^*(s) \left[\frac{p(s)}{p^*(s)}\right]^{\theta(s)-1} x(s)},$$

respectively. They represent the price competitiveness of home goods (relative to foreign goods) in home and foreign markets, respectively. The goods market clearing condition in the home country is

$$n(s) p(s) q(s) = \phi(s) Y d(s) + \phi(s) d^*(s), \tag{3.8}$$

---

[10]Equations (3.1) and (3.2) imply

$$\frac{tc(s)}{q(s)} \frac{1}{mc(s)} = \alpha(s) + \frac{w f_C(s)}{q(s) mc(s)} = \alpha(s) + \alpha(s) \frac{w f_C(s)}{tc(s) + w f_C(s)}, \tag{3.4}$$

where wf_C and $tc(s) + wf_C(s)$ are the non-production and production costs, respectively.

where $\phi(s)Yd(s)$ and $\phi(s)d^*(s)$ are home and foreign demand for domestically produced goods in industry s, respectively. Similarly, the foreign goods market clearing condition is

$$n^*(s)p^*(s)q^*(s)=\phi(s)Y[1-d(s)]+\phi(s)[1-d^*(s)]. \tag{3.9}$$

Balanced aggregate trade implies that the aggregate accounting equations for home and foreign countries are

$$Y=\int_0^1 n(s)p(s)q(s)\,ds \quad \text{and} \quad 1=\int_0^1 n^*(s)p^*(s)q^*(s)\,ds, \tag{3.10}$$

respectively.

Lemma 1. *The home aggregate accounting, Equation (3.10), can be expressed*

$$G(w/w^*)\overset{\text{def}}{=}\int_0^1 \phi(s)g(s)\,ds=0, \tag{3.11}$$

where $g(s)\overset{\text{def}}{=}Y\left\{x(s)[p(s)/p^*(s)]^{\theta(s)-1}(w/w^*)-1\right\}^{-1}-\left\{x(s)[p(s)/p^*(s)]^{1-\theta(s)}(w^*/w)-1\right\}^{-1}$.

Proof. See the appendix A.2. □

The function $g(s)$ represents competitiveness of home industry relative to the foreign. The first part shows the competitiveness of home country that is increasing in the relative country size Y but decreasing in the relative home wage w/w^* and the relative price of home $p(s)/p^*(s)$. In the same way, the second part represents the competitiveness of a foreign country. The above lemma implies that the sum of relative competitiveness of industries becomes zero. Even the home country has advantages from its large market size, the total trade balance is zero due to changes in terms of labor (relative price of non-tradable inputs).

Lemma 2. *Suppose that Assumption 2 holds. Then, Assumption 1 implies*

$$\exists!\frac{w}{w^*} \quad \textit{such that } 1<\frac{w}{w^*}<\overline{\text{TOL}},$$

where $\overline{\text{TOL}}\overset{\text{def}}{=}\min[x(s)]^{\frac{1}{1+\{1-[1-\vartheta_l(s)]\alpha(s)\}[\theta(s)-1]}}$.

Proof. See the appendix A.2. □

The above lemma shows that there exists a unique solution of terms of labor in which home country terms of labor appreciate. A large country faces higher labor costs than a small country.

The home country becomes a more attractive location for a firm than the foreign country due to trade costs and market size. A larger total number of firms in the home country than in the foreign country implies a higher labor demand for more production and larger firm entries in the home country. Since labor inputs are not tradable, the increase in demand causes the shortage of labor supply even the home labor endowment is larger than the foreign.

Thus, the market clearing prices in home and foreign labor markets satisfy that the home wage to be higher than the foreign wage.

In industry s, home exports and imports are $\phi(s) d^*(s)$ and $\phi(s) Y[1-d(s)]$, respectively. Thus, the ratio of exports to imports can be rewritten by

$$\frac{ex(s)}{im(s)} = h(s)\frac{1}{Y} \quad \text{where } h(s) \overset{\text{def}}{=} \frac{1+x(s)\left[\frac{n(s)}{n^*(s)}\right]\left[\frac{p(s)}{p^*(s)}\right]^{1-\theta(s)}}{1+x(s)\left[\frac{n^*(s)}{n(s)}\right]\left[\frac{p(s)}{p^*(s)}\right]^{\theta(s)-1}}. \tag{3.12}$$

$h(s)$ determines different trade surplus patterns across industries, which can be represented by a function of terms of labor and relative GDP.[11] An appreciation of home terms of labor has different impacts on the ratio across industries. Industries with a larger marginal cost coefficient, lower labor cost share, and smaller elasticity of substitution across products concentrate more in large countries than industries with smaller marginal cost coefficient, higher labor cost share, and larger elasticity of substitution across products.

Proposition 1. *In the unique equilibrium of Lemma 2, $ex(s)/im(s)$ is increasing in $\alpha(s)$ but decreasing in $\theta(s)$ and $\vartheta_l(s)$. The ratio does not depend on $f_C(s)$.*

Proof. See the appendix A.2. □

The industrial home market effect is positively related to economies of scale derived from marginal costs and degree of product differentiation, but negatively related to labor input intensity. Fixed costs play a limited role in different home market effects across industries.

3.3 Empirical Framework: Specification

To specify the empirical framework, consider a finite number of industries and countries. As in the model in Section 3.2, we assume that all industry characteristics are identical across countries. Given the CES preference and symmetric preference across countries, individual firm's exports from country i to country j in an industry s are determined by the real price of firm and the total demand of country j. Since we assume identical firms, monopolistic competition with CES preference implies that the total exports are

$$ex_{ij,t}(s) = n_{i,t}(s)\left[\frac{p_{ij,t}(s)}{p_{j,t}(s)}\right]^{1-\theta(s)}\left[\frac{1}{x_{ij,t}(s)}\right]\phi s Y_{j,t}, \tag{3.13}$$

where $p_{ij,t}(s)$ is the free on board (f.o.b) price of an imported product (from country i) in industry s in country j. Then, the country j market delivered cost, insurance, and freight (c.i.f) price of an imported product is $[x_{ij,t}(s)]^{1/[\theta(s)-1]} p_{ij,t}(s)$. $p_{j,t}(s)$ is the CES price index of industry s in country j. $x_{ij,t}(s)$ represents the total

[11] For details, see the derivations and the proof of Proposition 1 in Appendix A.2.

effective iceberg trade costs containing distance, trade agreements, language, borders, and so on. The trade costs are symmetric across bilateral trade partners: $x_{ij,t}(s) = x_{ji,t}(s)$.

Consider the ratio of exports to imports. Equation (3.13) and symmetric trade costs imply

$$\frac{ex_{ij,t}(s)}{im_{ij,t}(s)} = \left[\frac{n_{i,t}(s)}{n_{j,t}(s)}\right] \left[\frac{mc_{i,t}(s)}{mc_{j,t}(s)}\right]^{1-\theta(s)} \left(\frac{Y_{j,t}}{Y_{i,t}}\right), \tag{3.14}$$

where $mc_{i,t}(s)$ are the real marginal costs of industry s in country i (excluding export costs) that are identical across market destinations. Define $H_{ij,t}(s) \overset{\text{def}}{=} \ln [n_{i,t}(s)/n_{l,t}(s)] + [1-\theta(s)] \ln [mc_{i,t}(s)/mc_{j,t}(s)]$. Then, take a logarithm of each side in Equation (3.14):

$$\ln \frac{ex_{ij,t}(s)}{im_{ij,t}(s)} = H_{ij,t}(s) + \ln \frac{Y_{j,t}}{Y_{i,t}}, \tag{3.15}$$

where $\ln Y_{j,t} - \ln Y_{i,t}$ represents the cross-country difference of the importer's attributes, and $H_{ij,t}(s)$ represents the cross-country difference of the exporter's attributes. Proposition 1 implies that the cross-country difference of the exporter's attributes in each industry is associated with the relative country size. That association is called the home market effect, and it varies with industry characteristics. In Section 3.2, the theoretical model ignores comparative advantages to focus on the home market effect. To consider comparative advantage in the empirical analysis, we allow a different industry technology level for each country. Let a country i's level of technology in industry s be $z_i(s)$.[12] Then, $\ln z_{i,t}(s) - \ln z_{j,t}(s)$ represents the comparative advantage between country i and j in industry s. Thus, $H_{ij,t}(s) = \ln z_i(s) - \ln z_j(s) + h_{ij,t}(s)$ where $h_{ij,t}(s)$ represents the home market effect that is a function of relative country size. Even $h_{ij,t}(s)$ is the function of $Y_{i,t}/Y_{j,t}$, it is hard to find the explicit functional form solution. Thus, as in [Hanson and Xiang, 2004], we use the first order logarithmic approximation: $h_{ij,t}(s) \approx \beta_0(s) + \beta_1(s)(\ln Y_{i,t} - \ln Y_{j,t})$.[13] Hence, Equation (3.16) can be expressed as follows.

$$\ln \frac{ex_{ij,t}(s)}{im_{ij,t}(s)} = \ln \frac{z_{i,t}(s)}{z_{j,t}(s)} + \beta_0(s) + \beta_1(s) \ln \frac{Y_{i,t}}{Y_{j,t}} - \ln \frac{Y_{i,t}}{Y_{j,t}} + \epsilon_{ij,t}(s), \tag{3.16}$$

where $\epsilon_{ij,t}(s)$ is an error term. Define the industry home market effect coefficient by $\text{HME}(s) = \beta_1(s) - 1$. The main prediction of my model is that the coefficient depends on industry heterogeneity such as economies of scale, product differentiation, and input intensity.

To investigate industry heterogeneity of international trade empirically, we use the following two-level estimation in which the countries k and j export to the country i. The market country i is fixed for the U.S. Then, Equation (3.16)

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[12] More precisely, $z_i^{\frac{1}{\theta(s)-1}}(s)$ is Hicks neutral, which means that the production costs are $\left[r^{\vartheta_k(s)} w^{\vartheta_l(s)}\right] \left[q(s)/z_i^{\frac{1}{\theta(s)-1}}(s)\right]^{1/\alpha(s)}$. In the previous Section, the technology is normalized by one. Then, the sales and exports are proportional to $z_i(s)$.

[13] $h_{ij,t}(s) = H_{ij,t}(s)$ without a comparative advantage. See Equation (3.12) and Appendix A.2 for the details of $h_{ij,t}(s)$.

implies that

$$V_{kji,t}(s) \stackrel{\text{def}}{=} \ln \frac{ex_{ki,t}(s)}{im_{ki,t}(s)} \frac{im_{ji,t}(s)}{ex_{ji,t}(s)} = \text{HME}(s) \ln \frac{Y_{k,t}}{Y_{j,t}} + \ln \frac{z_{k,t}(s)}{z_{j,t}(s)} + \epsilon_{kji,t}(s), \tag{3.17}$$

where $\epsilon_{kji,t}(s) = \epsilon_{ki,t}(s) - \epsilon_{ji,t}(s)$ is an error term. $\ln z_{k,t}(s) - \ln z_{j,t}(s)$ represents a comparative advantage of country k relative to country j in s industry. The coefficient $\text{HME}(s)$ is the industry-level home market effect, which is the main interest in the above regression equation. Since $V_{kji,t}(s) = -V_{jki,t}(s)$, we construct samples satisfying $Y_{k,t} > Y_{j,t}$ to avoid duplicated observations.

The second level regression model looks at the association between home market effects and industry characteristics. The model is specified as follows.

$$\text{HME}(s) = \lambda_0 + \lambda_1 \text{EOS}_{\text{MC}}(s) + \lambda_2 \text{EOS}_{\text{FC}}(s) + \lambda_3 \text{PD}(s) + \lambda_4 \text{LII}(s) + \lambda_5 \text{MII}(s) + \nu(s), \tag{3.18}$$

where $\text{EOS}_{\text{MC}}(s)$ and $\text{EOS}_{\text{FC}}(s)$ are measurements for logarithmic economies of scale derived from marginal and fixed costs, respectively. $\text{PD}(s)$ is a proxy for product differentiation, which is negatively related to the elasticity of substitution across products in industry s. $\text{LII}(s)$ and $\text{MII}(s)$ are variables measuring labor and material input intensities, respectively. We use logarithmic input cost shares as the measurements.

The first derivatives of Proposition 1 summarize the main prediction of the theoretical model in Section 3.2. The industry's home market effect is increasing in the marginal cost coefficient but decreasing in labor input intensity and elasticity of substitution (inverse of a degree of product differentiation). The fixed costs have no impact on the home market effect. For empirical analysis, the regression model is linearized because it is hard to get the functional form of solutions to the theoretical model. That can generate low explanation power such as R squares in the regression results. Signs of the coefficients in Equation (3.18) capture the results of Proposition 1 as follows: $\lambda_1, \lambda_3 > 0$, $\lambda_4 < 0$, and $\lambda_2 = 0$.

Further, the regression consider the material input intensity as a regressor, where λ_5 represents the impacts of the stage of goods-producing: final goods industries versus intermediary goods industries. The theoretical framework does not have material inputs. In the empirical analysis, I use a production function with three factors – capital, labor, and materials – that has been widely used in previous empirical research related to the production function and economies of scales.

3.4 Data and Variables

The data come from many sources. I use the four digit SIC manufacturing sector bilateral trade flows of U.S. data from the U.S. Census Bureau, which is constructed by [Schott, 2008] using the concordances from [Bartelsman and Doms, 2000] and [Pierce and Schott, 2009]. The GDP data are from the Penn World Table 9.0. I choose 22 countries, which are the

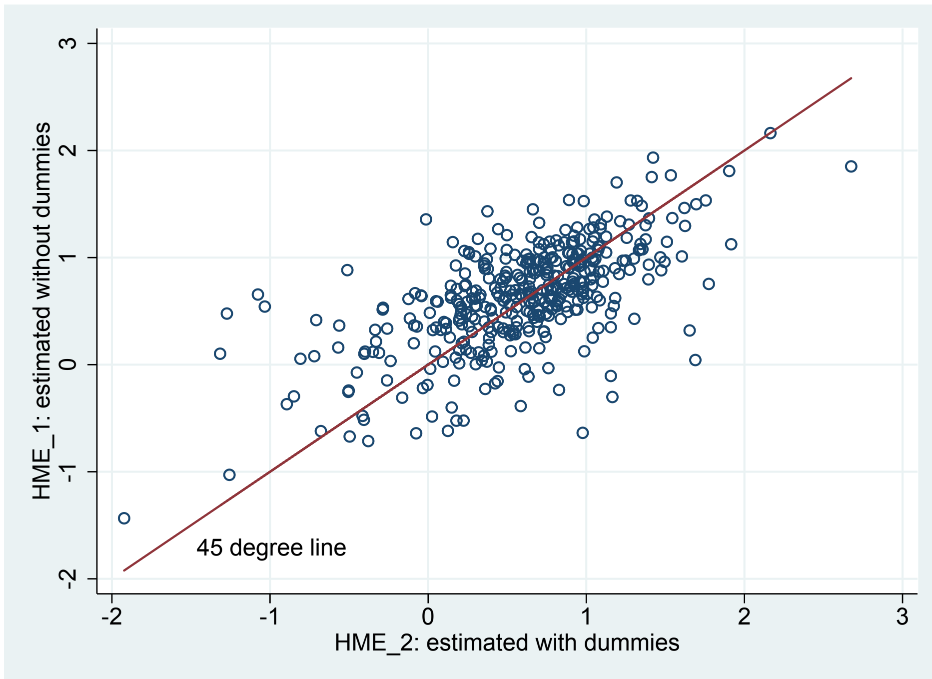

Figure 3.1: Home Market Effect Coefficients: 4-digit SIC manufacturing industries

Notes: A home market effect coefficient in industry s is the estimated in Equation (3.17).

top 25 trade partner countries of the U.S. with the exception of Hong Kong, Taiwan, and Saudi Arabia.[14] The panel data set contains data for 397 manufacturing industries (4-digit SIC) and $22 \times 21 = 462$ country pairs from 1995 through 2014 (after World Trade Organization, WTO). The number of observations for my benchmark specification is 1,467,960. See Appendix B for details.

3.4.1 Home Market Effect Coefficients

Figure 3.1 depicts the relationship between pairs of estimated home market effect coefficients in Equation (3.17). In the regression, first I assume that an individual industry has no impact home and foreign aggregate GDP, which is reasonable because there are many narrowly defined industries. The industry's technology level is exogenously given. Then, country l's comparative advantage term in industry s is also given and os independent of both its own and the

[14]Saudi Arabia is the world's leading oil exporter. The 90% of Saudi Arabian exports is petroleum. Also, I drop the special region or province of the People's Republic of China. The sample countries' International Standards Organization (ISO) three digit alphabetic codes are AUS, BEL, BRA, CAN, CHE, CHL, CHN, COL, DEU, FRA, GBR, IND, IRL, ISR, ITA, JPN, KOR, MEX, MYS, NLD, SGP, and THA.

Table 3.1: Home Market Effect and Industry Characteristics

	Observations	Mean	Standard Deviation	Min	Max	Mean: Quartiles of HME_1 (1)	(2)	(3)	(4)
				Panel A: Home Market Effects					
HME_1	397	0.64	0.49	-1.43	2.16	0.00	0.54	0.82	1.21
HME_2	397	0.60	0.56	-1.92	2.68	0.17	0.47	0.75	1.01
				Panel B: Industry Characteristics					
EOS	397	0.13	0.28	-1.82	0.63	0.03	0.11	0.17	0.20
$\mathrm{EOS}_{\mathrm{MC}}$	397	-0.01	0.28	-1.87	0.56	-0.12	-0.03	0.04	0.08
$\mathrm{EOS}_{\mathrm{FC}}$	397	0.13	0.10	0.01	0.84	0.14	0.14	0.13	0.11
$\mathrm{PD}_{\mathrm{RC}}$	380	0.66	0.41	0	1	0.46	0.62	0.73	0.83
$\mathrm{PD}_{\mathrm{HS}}$	391	3.37	1.23	0.69	7.08	3.15	3.42	3.45	3.48
LII	397	-1.66	0.45	-3.87	-0.77	-1.88	-1.67	-1.56	-1.54
MII	397	-0.72	0.23	-1.45	-0.14	-0.71	-0.72	-0.72	-0.74

Notes: HME_1 and HME_2 are the home market effect coefficient without and with dummies, respectively. EOS is the logarithmic estimated economies of scale. $\mathrm{EOS}_{\mathrm{MC}}$ and $\mathrm{EOS}_{\mathrm{FC}}$ are the source of economies of scale derived from marginal and fixed costs, respectively. $\mathrm{PD}_{\mathrm{RC}}$ and $\mathrm{PD}_{\mathrm{HS}}$ are the measure of product differentiation based on [Rauch, 1999] classification and a number of products traded in an industry, respectively. LII and MII are the labor and material input intensities, respectively.

foreign country's sizes: $\ln z_{k,t}(s) - \ln z_{j,t}(s) + \epsilon_{kji,t}(s)$ is uncorrelated with $Y_{k,t}$ and $Y_{j,t}$. Then, the ordinary least squares estimate with a single regressor – the relative size of GDP – and a constant term is consistent.[15] Second, I use country k, and country j dummy variables for each year in the regression. The time country dummy variables are enough to control the comparative advantage terms: $\ln z_{k,t}(s)$ and $\ln z_{j,t}(s)$.

HME_1(s) and HME_2(s) are estimates of home market effect in industry s without and with the dummies, respectively. Their correlation coefficient is 0.633. Table 3.1 reports that the average of HME_1(s) is slightly larger than the average of HME_2(s): 0.64 and 0.60, respectively. The medians of standard errors of the estimates are 0.058 and 0.060, respectively. 36 and 37 industries cannot reject the null hypothesis HME_1$(s) = 0$ and HME_1$(s) = 0$ at the 5% significance level, respectively. The rest of industries have non-zero estimates.[16]

[15] The average of $\ln z_{k,t}(s) - \ln z_{j,t}(s)$ is non-zero. Thus, we need a constant term.

[16] In 338 and 334 industries, their estimates of HME_1(s) and HME_1(s) are positive at the 5% significance level. 23 and 26 industries have the negative estimates of HME_1(s) and HME_1(s) at the 5% significance level.

3.4.2 Industry Characteristics

Table 3.1 reports the following industry characteristics in the data. EOS is the logarithmic estimated economies of scale. $\mathrm{EOS_{MC}}$ and $\mathrm{EOS_{FC}}$ are the source of economies of scale derived from marginal and fixed costs, respectively. $\mathrm{PD_{RC}}$ and $\mathrm{PD_{HS}}$ are the measure of product differentiation based on [Rauch, 1999] classification and a number of products traded in an industry, respectively. LII and MII are the labor and material input intensities, respectively. They are measured by the logarithmic labor and material cost shares.

To estimate cost-side industry characteristics, I collect the U.S. manufacturing 4-digit industry data from NBER-CES Manufacturing Industry Database (from 1958 through 2011). The theoretical framework predicts that the shape of the marginal cost curve has an impact on home market effects; however, fixed costs do not. To test the prediction, I decompose economies of scale into marginal and fixed costs as in Equation (2.2) of Chapter 2.

$$\mathrm{EOS}\,(s) \approx \alpha\,(s)\left[1 + \tilde{F}_C\,(s)\right], \tag{3.19}$$

where $\mathrm{EOS}\,(s)$ is economies of scale based on the industry-level aggregated production function, and $\tilde{F}_C\,(s)$ is the non-production labor input ratio to production labor input. Thus, the logarithmic economies of scale from marginal and fixed costs can be defined as follows.

$$\mathrm{EOS_{MC}}\,(s) \overset{\text{def}}{=} \ln\alpha\,(s)\,, \quad \text{and} \quad \mathrm{EOS_{FC}}\,(s) \overset{\text{def}}{=} \ln\left[1 + \tilde{F}_C\,(s)\right] \tag{3.20}$$

To estimate economies of scale for the 4-digit U.S. manufacturing industries, I follow [Basu and Fernald, 1997]. The inputs and outputs generate endogeneity problems; thus, aggregate demand-side instruments such as oil prices, the president's party, and government defense spending are widely used. According to [Basu and Fernald, 1997], however, the aggregate demand-side instruments are not entirely exogenous and are weakly correlated to regressors. In this case, instrumented estimates can be more biased than ordinary least squares estimates.[17] Thus, I use un-instrumented estimation results. The non-production input ratio to production input ($\tilde{F}_C$) is calculated by the ratio of payroll for nonproduction workers to payroll for production workers in industry. The logarithmic labor and material cost share (ϑ_l and ϑ_m) are calculated as in [Basu and Fernald, 1997]. Then, I obtain $\mathrm{LII} = \ln\vartheta_l$ and $\mathrm{MII} = \ln\vartheta_m$). Finally, economies of scale derived from marginal and fixed costs ($\mathrm{EOS_{MC}}$ and $\mathrm{EOS_{FC}}$) are implied by Equation (3.20).

The average of logarithmic economies of scale is 0.13, which approximately equals the sum of economies of scale from marginal costs and fixed costs: $0.13 \approx -0.01 + 0.13$. An industry average of economies of scale from marginal costs, denoted by $\mathrm{EOS_{MC}}$, is -0.01, which is close to zero.[18] At the aggregate level, the manufacturing sector's marginal cost curve is flat, in other words, marginal costs are constant regardless of production level. An industry average of economies of scale from fixed costs, denoted by $\mathrm{EOS_{FC}}$, is 0.13. On average, the primary source

[17] See [Nelson and Startz, 1990] for details.

[18] An industry average of non-logarithmic economies of scale from marginal costs, denoted by α, is 1.02, which is close to one.

of manufacturing sector's economies of scale is fixed costs. However, the shape of marginal costs is more important to cost-side industry heterogeneity than are fixed costs. Standard deviations of economies of scale from marginal and fixed costs are 0.28 and 0.10, respectively, while the correlations to economies of scale are 0.93 and 0.25, respectively. Economies of scale from marginal costs have large cross-industry dispersion and are more associated to economies of scale than economies of scale from fixed costs.

Because the elasticity of substitution across products is difficult to measure directly, I consider two candidates for a degree of product differentiation in each industry. The first candidate assumes that more differentiated industries have a larger number of products traded than less differentiated industries. I introduce $\mathrm{PD}_{\mathrm{HS}}(s)$ by a logarithmic number of 10 digit Harmonized System (HS) categories in each industry s. $\mathrm{PD}_{\mathrm{HS}}(s)$ is a sum of export and import based 10 digit HS codes. An industry with a high degree of product differentiation contains diverse products level varieties, which implies a large $\mathrm{PD}_{\mathrm{HS}}(s)$. As an alternative indicator of product differentiation, I use the conservative classification in [Rauch, 1999]. He defines the three product categories: goods traded on an organized exchange, reference priced, and differentiated products. I construct the second proxy, denoted by $\mathrm{PD}_{\mathrm{RC}}(s)$, based on [Rauch, 1999]'s conservative classifications.

In the data, the two proxies for the degree of product differentiation are weakly related (The correlation coefficient is 0.07.), and both proxies have advantages and disadvantages. The number of HS products do not directly measure the degree of product differentiation. [Rauch, 1999]'s classification directly indicates product differentiation. However, his classification is a dummy variable; the market is differentiated or not. Further, concordances between SIC and SITC are required, which potentially generates additional measurement errors. Thus, I use both proxies to check that estimated results, relationships and causalities, are robust.

Panel B in Table 3.1 displays descriptive evidence of how home market effects vary with industry characteristics. Related to economies of scale from marginal costs and product differentiation, the statistics at different quartiles of the home market effects support the theory. The home market effect coefficients are positively correlated to economies of scale and economies of scale derived from sloping marginal cost curves. However, economies of scale derived from fixed costs have the opposite correlation. Measures of production differentiation tend to be large when industries have strongly positive home market effects. In contrast to the theoretical prediction, labor input intensities increase in the home market effect coefficients.

3.5 Home Market Effect and Industry Characteristics: OLS Estimates

Table 3.2 shows the results of OLS regression in Equation (3.18), which support the theoretical prediction that industries with larger economies of scale from marginal costs and more differentiated products are more concentrated in large countries than are industries with smaller economies of scale and less differentiated products. The first rows in both Panels A and B show that home market effects tend to be smaller when industries' marginal costs decrease in

Table 3.2: OLS Regression: Home market effect and industry characteristics

	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	Panel A: Benchmark OLS regression							
	Panel A.1				Panel A.2			
	HME_1	HME_1	HME_1	HME_1	HME_2	HME_2	HME_2	HME_2
EOS_{MC}	0.31^{***}	0.33^{***}	0.18^{*}	0.21^{**}	0.28^{**}	0.29^{**}	0.23^{*}	0.25^{**}
	(0.09)	(0.09)	(0.09)	(0.10)	(0.11)	(0.11)	(0.12)	(0.12)
EOS_{FC}			-1.02^{***}	-0.92^{***}			-0.39	-0.29
			(0.28)	(0.29)			(0.36)	(0.36)
PD_{RC}	0.32^{***}		0.34^{***}		0.30^{***}		0.31^{***}	
	(0.06)		(0.06)		(0.08)		(0.08)	
PD_{HS}		0.04^{*}		0.04^{*}		0.08^{***}		0.08^{***}
		(0.02)		(0.02)		(0.02)		(0.02)
LII	0.24^{***}	0.35^{***}	0.33^{***}	0.44^{***}	-0.06	0.03	-0.02	0.06
	(0.07)	(0.07)	(0.08)	(0.08)	(0.09)	(0.09)	(0.10)	(0.09)
MII	0.28^{**}	0.28^{**}	0.14	0.15	-0.09	-0.14	-0.15	-0.18
	(0.13)	(0.13)	(0.13)	(0.13)	(0.16)	(0.16)	(0.17)	(0.17)
Constant	1.04^{***}	1.32^{***}	1.21^{***}	1.49^{***}	0.24	0.29	0.30	0.34
	(0.21)	(0.20)	(0.21)	(0.21)	(0.26)	(0.25)	(0.27)	(0.26)
Observations	380	391	380	391	380	391	380	391
R^2	0.20	0.15	0.23	0.17	0.07	0.06	0.07	0.06

Continued on next page

quantity produced. The coefficients for economies of scale from marginal costs are positive at the 10% significance level. On average, a one percentage point increase in economies of scale derived from a sloping marginal cost curve implies a higher home market effects in the range from 0.26 to 52.

The third and fourth rows report estimates for product differentiation. A large country has an advantage in industries with more differentiated products in international trade markets. In Panel A, home market effects are positively associated with proxies for the degree of product differentiation, which is statistically significant at the 10% level. Panel B reports similar patterns. However, in Panel B.1, Columns (2) and (4) report that the coefficients are positive but not insignificantly so. The third rows report that the coefficients of [Rauch, 1999]'s classification are positive and statistically significant in all cases. On average, industries with differentiated products have larger home market effect

Table 3.2 – continued from previous page

	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	Panel B: OLS regression without input intensities							
	Panel B.1				Panel B.2			
	HME_1	HME_1	HME_1	HME_1	HME_2	HME_2	HME_2	HME_2
$\mathrm{EOS}_{\mathrm{MC}}$	0.40***	0.52***	0.37***	0.52***	0.26**	0.33***	0.24**	0.33***
	(0.08)	(0.09)	(0.08)	(0.09)	(0.10)	(0.10)	(0.10)	(0.10)
$\mathrm{EOS}_{\mathrm{FC}}$			-0.50**	-0.04			-0.26	0.08
			(0.23)	(0.23)			(0.29)	(0.28)
$\mathrm{PD}_{\mathrm{RC}}$	0.38***		0.42***		0.29***		0.31***	
	(0.06)		(0.06)		(0.07)		(0.08)	
$\mathrm{PD}_{\mathrm{HS}}$		0.03		0.03		0.07***		0.07***
		(0.02)		(0.02)		(0.02)		(0.02)
Constant	0.40***	0.55***	0.44***	0.56***	0.41***	0.36***	0.43***	0.35***
	(0.04)	(0.07)	(0.05)	(0.08)	(0.06)	(0.08)	(0.06)	(0.09)
Observations	380	391	380	391	380	391	380	391
R^2	0.18	0.09	0.19	0.09	0.07	0.05	0.07	0.05

Notes: Standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. HME_1 and HME_2 are the home market effect coefficient without and with dummies, respectively. EOS is the logarithmic estimated economies of scale. $\mathrm{EOS}_{\mathrm{MC}}$ and $\mathrm{EOS}_{\mathrm{FC}}$ are the source of economies of scale derived from marginal and fixed costs, respectively. $\mathrm{PD}_{\mathrm{RC}}$ and $\mathrm{PD}_{\mathrm{HS}}$ are the measure of product differentiation based on [Rauch, 1999] classification and a number of products traded in an industry, respectively. LII and MII are the labor and material input intensities, respectively.

coefficients than other industries in a range from 0.30 to 0.42. The fourth rows tell us that on average, a one percentage point increase in a number of 10-digit HS products implies larger home market effects in the range from 0.03 to 0.08.

Some OLS results in Table 3.2, however, are inconsistent with theoretical predictions related to economies of scale from fixed costs and labor input intensity.

In Columns (3) and (4) of each Panel, I investigate the effect of economies of scale derived from fixed costs on the relationship between country size and exports. My theoretical prediction is no impact of fixed costs on the home market effect. However, the coefficients of OLS regression with a dependent variable HME_1 indicate that the home market effect increases when fixed costs are large. For Columns (3) and (4) in Panel A.1, a one percentage point increase in the economies of scale from fixed costs is associated with 1.02, and 0.92 decreases in the home market effect at the 1$\%$ significance level, respectively. Further, Column (3) in Panel B.1 shows a negative relationship at the

5% significance level. However, Panels A.2 and B.2 show that estimates for fixed costs are statistically zero at 10% significance level, which implies an insignificant association between the home market effect and economies of scale from fixed costs.

OLS regressions of HME_1 in Panel A.1 show that the home market effect increases when a labor input intensity is small, contrary to theoretical prediction. For Columns (1) – (4), a one percentage point increase in the labor input intensity is associated with 0.24, 0.35, 0.32 and 0.44 increases in the home market effect, respectively. All estimates are significant at the 1% level. However, these relationships in Panel A.1 are not robust. All models with HME_2 in Panel A.2 report very small positive or negative coefficients (-0.06, 0.03, -0.02, and 0.06) that are statistically zero at the 10% significance level. Thus, the empirical results with OLS do not robustly support the theoretical results associated with labor input intensity.

It is possible that the findings from OLS regressions in Table 3.2 are unreliable due to endogeneity. Equation (3.18) describes the relationship between home market effects and industry characteristics. Here, there is no direct endogeneity problem because the dependent variable does not affect the independent variable theoretically. Thus, there is no endogeneity problem due to causality. However, measurements errors and proxy variables generate inconsistency for OLS estimator. The problems could be solved by using instrumented regressions.

3.6 Home Market Effect and Industry Characteristics: IV Estimates

I estimate the marginal cost coefficient (economies of scale derived from a sloping marginal cost curve) because it is not directly observed, which implies measurement errors. Also, I use a proxy for the degree of product differentiation because it is hard to estimate the elasticity of substitution across products in a narrowly defined industry level. In general, measurement errors and proxy variables generate endogeneity in regressions with the mis-measured covariates and thereby inconsistency in least squares estimates. To correct for the endogeneity, I use instruments for economies of scale from marginal cost coefficient and product differentiation proxy. It is natural to consider another measurement (or proxy) as an instrument.

First, an instrumental variable for economies of scale from marginal costs is constructed by [Lee, 2007]'s return to scale estimates from plant-level data. [Lee, 2007] provides returns to scale for 2-digit US manufacturing industries.[19] I calculate the marginal cost curve coefficient based on Equation (3.19). Next, as a proxy indicator of product differentiation, I use the number of products (measured by 10 digit Harmonized System) and [Rauch, 1999] product classification. Thus, they are reasonable instrument candidates for each other. Also, I use dummies for investment, durable consumption, non-durable consumption, and other consumption goods as additional instruments. The data is from the three-digit SIC level in [Castro et al., 2015]. They define goods as durable consumption goods if their service

[19][Lee, 2007] estimates the returns to scale, using OLS and IV regressions. I use his OLS estimates to generate my benchmark instrumental variable. The choice does not have an impact on the main results of this paper.

life is more than three years.[20]

I use the Continuously Updated Estimator (CUE) proposed by [Hansen et al., 1996].[21] The Two Stage Least Squares (TSLS) estimator with weak instruments is biased towards OLS, whereas CUE corrects the bias approximately and is partially robust to weak instruments.[22]

Table 3.3 reports first stage results for both endogenous variables: economies of scale from marginal costs and product differentiation that are the primary building blocks of my model. The first lows of Columns (1.1), (2,1), (3,1), and (4,1) in Panel A display the first stage estimates for economies of scale from marginal costs as an endogenous regressor. An instrument, non-flat marginal cost curve coefficient from []Lee2007, is positively associated with my benchmark measure at the 1% significance level. The third and fourth columns of each model show that proxies for the degree of product differentiation have positive relationships. Even though the correlation coefficient between them is 0.08 that cannot reject the hypothesis (zero correlation) at the 5% significance level, the first stage coefficients in Columns (1.2), (2.2), (3.2) and (4.2) are 0.03, 0.38, 0.04, and 0.35, respectively. They are positive and statistically significant at the 5% level. These results suggest that the instruments are valid.

The results of the tests related to instrument variables are reported in Panels B, C, and D of Table 3.3. Anderson-Rubin Wald test statistics in Panel C always reject the null hypothesis that the coefficient of the excluded instrument is zero. However, Columns (2) and (4) in Panel B reports small values of Kleibergen-Paap rk Wald F statistics. Thus, it was difficult to reject the hypothesis that the equation is weakly identified when using the number of HS products as an endogenous regressor and [Rauch, 1999]'s classification as an instrument. At the 10% significance level, the Hansen J statistic in Panel D cannot reject the null hypothesis that all instruments are valid. Panel B in Table 3.4 reports that the p-value of Durbin-Wu-Hausman chi-sq test statistics. The endogeneity test of the null hypothesis that the specified endogenous regressor can be treated as exogenous is rejected at the 1 percent significance level. Thus, the endogenous regressors are relevant. However, it is possible to have weak instrument problems in Columns (2) and (4). Hence, I use the CUE estimator rather than the TSLS estimator.

IV estimates using CUE are reported in Table 3.4. The instrumented regression results establish three main results compared with the un-instrumented regression results. First, impacts of economies of scale from marginal costs are stronger and more significant in CUE than in OLS regression results. Second, the CUE coefficients of economies of scale from fixed costs are insignificant or positive. (The OLS estimates are insignificant or negative.) Third, after controlling for measurement errors and proxy problems by using instrumental variables, a labor input intensity tends to be negatively associated with home market effects. (The OLS estimates are insignificant or significantly positive.)

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[20] They use the service life data from [Bils and Klenow, 1998].

[21] The CUE is one of Generalized Method of Moments (GMM) estimator, but it performs better with weak instrument than the conventional GMM and TSLS. See [Stock et al., 2002] for weak instrument problems and GMM estimators.

[22] Fuller k-type estimator is also preferred due to the same reason, which is less bias than limited information maximum likelihood estimator and TSLS.

Table 3.3: First Stage of IV Regression: Economies of scale from marginal costs and product differentiation

	(1.1)	(1.2)	(2.1)	(2.2)	(3.1)	(3.2)	(4.1)	(4.2)
	Panel A: First Stage							
	$\mathrm{EOS_{MC}}$	$\mathrm{PD_{RC}}$	$\mathrm{EOS_{MC}}$	$\mathrm{PD_{HS}}$	$\mathrm{EOS_{MC}}$	$\mathrm{PD_{RC}}$	$\mathrm{EOS_{MC}}$	$\mathrm{PD_{HS}}$
$\mathrm{EOS_{MC}}$	0.84***	0.19	0.84***	0.27	0.56***	0.71***	0.55***	1.09
from [Lee, 2007]	(0.10)	(0.16)	(0.10)	(0.53)	(0.16)	(0.25)	(0.16)	(0.86)
$\mathrm{EOS_{FC}}$					-0.51**	0.94***	-0.53**	1.49
					(0.23)	(0.35)	(0.23)	(1.21)
$\mathrm{PD_{RC}}$			0.03	0.38**			0.04	0.35**
			(0.03)	(0.17)			(0.03)	(0.18)
$\mathrm{PD_{HS}}$	0.01	0.03**			0.01	0.03**		
	(0.01)	(0.02)			(0.01)	(0.02)		
LII	0.21***	0.45***	0.20***	0.07	0.23***	0.41***	0.22***	0.01
	(0.04)	(0.06)	(0.04)	(0.23)	(0.04)	(0.06)	(0.04)	(0.23)
MII	-0.01	0.10	-0.01	0.86**	-0.06	0.18	-0.05	0.99***
	(0.07)	(0.11)	(0.07)	(0.37)	(0.07)	(0.11)	(0.07)	(0.38)
Constant	0.58***	1.49***	0.57***	3.78***	0.58***	1.49***	0.56***	3.81***
	(0.12)	(0.18)	(0.12)	(0.63)	(0.12)	(0.18)	(0.12)	(0.63)
Dummy for Goods	Y	Y	Y	Y	Y	Y	Y	Y
Observations	380	380	380	380	380	380	380	380

	(1)	(2)	(3)	(4)
	Panel B: Weak identification test (Cragg-Donald Wald F statistic)			
Reg. with both	4.25	1.64	4.93	1.94
	Panel C: Weak instrument robust inference (p-value for Anderson-Rubin Wald test)			
Reg. with HME_1	0.00	0.00	0.00	0.00
Reg. with HME_2	0.00	0.00	0.00	0.00
	Panel D: Overidentification test of all instruments (p-value of Hansen J statistic)			
Reg. with HME_1	0.37	0.77	0.23	0.91
Reg. with HME_2	0.11	0.28	0.11	0.61

Notes: Standard errors in parentheses. $^{*}\ p < 0.10$, $^{**}\ p < 0.05$, $^{***}\ p < 0.01$. [Stock and Yogo, 2005]'s weak identification test critical values for 2 endogenous variable and 6 excluded instruments: 10%, 15%, 20%, and 25% maximal LIML size are 4.32, 3.13, 2.78, and 2.60, respectively. HME_1 and HME_2 are the home market effect coefficient without and with dummies, respectively. EOS is the logarithmic estimated economies of scale. $\mathrm{EOS_{MC}}$ and $\mathrm{EOS_{FC}}$ are the source of economies of scale derived from marginal and fixed costs, respectively. $\mathrm{PD_{RC}}$ and $\mathrm{PD_{HS}}$ are the measure of product differentiation based on [Rauch, 1999] classification and a number of products traded in an industry, respectively. LII and MII are the labor and material input intensities, respectively.

Table 3.4: IV Regression: Home market effect and industry characteristics

	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	Panel A: Continuous-updating GMM estimates							
	Panel A.1				Panel A.2			
	HME_1	HME_1	HME_1	HME_1	HME_2	HME_2	HME_2	HME_2
$\mathrm{EOS}_{\mathrm{MC}}$	1.37***	1.36***	1.54***	1.72***	1.33***	1.28***	2.02***	2.05***
	(0.23)	(0.41)	(0.39)	(0.62)	(0.27)	(0.42)	(0.51)	(0.66)
$\mathrm{EOS}_{\mathrm{FC}}$			0.37	0.68			1.43*	1.62*
			(0.57)	(0.89)			(0.75)	(0.94)
$\mathrm{PD}_{\mathrm{RC}}$	0.49		0.67**		0.64*		0.82**	
	(0.32)		(0.31)		(0.38)		(0.41)	
$\mathrm{PD}_{\mathrm{HS}}$		0.67**		0.62**		0.69**		0.61**
		(0.27)		(0.24)		(0.28)		(0.26)
LII	-0.16	0.01	-0.31	-0.14	-0.52***	-0.28	-0.90***	-0.61**
	(0.17)	(0.19)	(0.19)	(0.27)	(0.20)	(0.19)	(0.25)	(0.29)
MII	0.05	-0.46	0.06	-0.38	-0.33*	-0.84**	-0.26	-0.67*
	(0.16)	(0.36)	(0.17)	(0.35)	(0.19)	(0.37)	(0.23)	(0.37)
Constant	0.10	-1.95	-0.30	-2.05*	-0.92	-2.81**	-1.80***	-3.19***
	(0.52)	(1.19)	(0.53)	(1.16)	(0.62)	(1.23)	(0.69)	(1.23)
Observations	380	380	380	380	380	380	380	380
	Panel B: Endogeneity test (Durbin-Wu-Hausman chi-sq p-value)							
All IVs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Notes: Standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. HME_1 and HME_2 are the home market effect coefficient without and with dummies, respectively. EOS is the logarithmic estimated economies of scale. $\mathrm{EOS}_{\mathrm{MC}}$ and $\mathrm{EOS}_{\mathrm{FC}}$ are the source of economies of scale derived from marginal and fixed costs, respectively. $\mathrm{PD}_{\mathrm{RC}}$ and $\mathrm{PD}_{\mathrm{HS}}$ are the measure of product differentiation based on [Rauch, 1999] classification and a number of products traded in an industry, respectively. LII and MII are the labor and material input intensities, respectively.

To summarize, the instrumented estimates in Table 3.4 are more consistent with the new trade theory than are the uninstrumented results in Table 3.2.

In Table 3.4, instrumented estimates of the impact of the shape of the marginal cost curve on the home market effect are positive in the range from 1.28 to 2.05, which is significant at the 1% level. The coefficients are more significant and larger than the OLS estimates in Table 3.2 because measurement errors generate bias toward zero for OLS estimates.

My CUE results with dependent variable HME_1 give some empirical evidence for the theoretical prediction that the relationship between country size and export does not depend on fixed costs. In Panel A.1, the coefficients for economies of scale from fixed costs are statistically indistinguishable from zero at the 10% significance level. However, these results are not roust when I use HME_2 as a dependent variable. In Panel A.1, the point estimates for fixed costs are 1.43, and 1.62, respectively. At the 10% level, the coefficients are significantly positive.

The third and fourth rows in Panel A of Table 3.4 look at the degree of product differentiation. The third row displays the impacts of [Rauch, 1999]'s classification on home market effect coefficients in Columns (1) and (3) with HME_1 and HME_2 as dependent variables. The estimates are 0.49, 0.67, 0.64, and 0.82, respectively almost twice as large as the OLS estimates in Table 3.2. The coefficients for the number of 10-digit HS products in the fourth row are 0.67, 0.62, 0.69, and 0.61 for Columns (2) and (4) with two different home market effect measures, respectively. The corresponding OLS estimates are much lower than the CUE estimates, in a range from 0.04 to 0.08. Such increases in the coefficients for product differentiation proxies are because measurement errors and proxy problems cause OLS estimates bias toward zero. However, the CUE estimates are less significant than the OLS estimates. For Columns (1) – (4), all OLS results with HME_1 and HME_2 are significant at the 1 percent level. In Panel A.1, the CUE results with HME_1 for Column (1) are insignificant at the 10% significance level. The coefficients in Columns (2) – (4) are positive at the 5% significance level. In Panel A.2, Column (1) with HME_2 is significantly positive at the 10% level. The others are positive at the 5% significance level.

Related to impacts of labor input intensity, the discordances between theoretical prediction and the OLS results in Table 3.2 are mitigated after considering the instrumental variables in Table 3.4. In Table 3.2, estimates with HME_1 are positive at the 1% significance level. The point estimates with HME_2 are positive but statistically zero. To summarize, OLS results can reject the null hypothesis that LII coefficient is non-positive, which is inconsistent to the theoretical results. In Panel A of Table 3.4, the instrumented regressions give the negative coefficients except for Column (2) in Panel A.1. The point estimate is 0.01, which is insignificant at the 10% level. Columns (1), (3), and (4) in Panel A.2 are negative at the 5% significance level, which is consistent with the theoretical result. However, all Columns in Panel A.1 are statistically zero at the 10% significance level. To summarize, all CUE estimates reject the null hypothesis that the coefficient is positive. These findings imply that labor input intensity is not positively associated with the home market effect.

To check robustness for my IV results in Table 3.4, I consider two regressions. First, I use logarithmic regressors in Equation (3.18). As an alternative functional form, I use a linear relationship for Equation (3.18) in this section. Thus, regressors are the non-flat marginal cost curve coefficient, fixed input ratio, labor and material cost share without a logarithmic transformation. For a proxy for product differentiation, I use the same variables as in the previous section.

$$\mathrm{HME}\left(s\right)=\lambda_0+\lambda_1\alpha\left(s\right)+\lambda_2\tilde{F}_C\left(s\right)+\lambda_3\mathrm{PD}\left(s\right)+\lambda_4\vartheta_l\left(s\right)+\lambda_5\vartheta_m\left(s\right)+\nu\left(s\right) \tag{3.21}$$

Second, as an alternative measure of country size, I use real GDP based on Purchasing Power Parity (PPP) when I estimate the home market effect coefficient in Equation (3.17). In Appendix C, Table C.8 reports IV estimates based on a linear functional form, and Table C.9 presents IV estimates using home market effects with GDP based on PPP. All results are consistent with the results in Table 3.4.

Section 3.6 shows economies of scale from marginal cost curves are strongly associated with the home market effect. However, product differentiation has week relation to the home market effects even that is consistent to the predictions. That might be because the measurements of the differentiation are not strong proxies as indicated in the tables in this section. The covariates $\mathrm{PD}_{\mathrm{RC}}$ and $\mathrm{PD}_{\mathrm{HS}}$ are indirect measures. However, it is hard to find better measurements. As discuss in [Syverson, 2018], the demand-system-estimation approach for product differentiation needs data with details of products and markets which are not feasible in multi-industries and aggregate economy settings.

3.7 Concluding Remarks

In line with the new trade theory, I investigate how international trade varies with industry characteristics. As an important determinant of industry-level home market effects, I focus on economies of scale derived from marginal costs. In contrast, economies of scale from fixed costs do not play a primary role in explaining heterogenous home market effects across industries. As in the previous literature, the model predicts a positive link between product differentiation and home market effects. Additionally, home market effects are strong in less labor-intensive industries. Bilateral trade data supports these theoretical predictions in a manufacturing sector after controlling for measurement errors and proxy problems.

These findings show that two key ingredients of the new trade model - economies of scale and product differentiation - affect narrowly defined industry-level home market effects (association between trade and country size). The conventional new trade models based on [Krugman, 1979, Krugman, 1980], and [Melitz, 2003] assume a linear cost function due to model tractability in which economies of scale are only derived from fixed costs. My findings suggest that the assumption is too strong for multi-industry models investigating narrowly defined industry-level international trade patterns.

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Appendix A

DERIVATIONS AND PROOFS

A.1 Steady State Export Cutoff in Section

In the steady state, all factor prices are identical across industries because the adjustment cost structures imply fully flexible cross-industry reallocations of factors in the long run. For convenience, Define Υ_N^s and Υ_X^s as follows.

$$\Upsilon_N^s = \left(\frac{ED_X^s}{ED_N^s}\right)^{(\alpha^s-1)\zeta^s+1} - 1$$
$$\Upsilon_X^s = \left(\frac{ED_X^s}{ED_N^s}\right)^{-(\alpha^s-1)\zeta^s} \Upsilon_N^s = \left(\frac{ED_X^s}{ED_N^s}\right) - \left(\frac{ED_X^s}{ED_N^s}\right)^{-(\alpha^s-1)\zeta^s}$$

$eg^s = \Upsilon_N^s/\Upsilon_X^s$ is the ratio of non-exporter's marginal costs to exporter's marginal costs, which represents the steady state efficiency export gains. $\alpha^s > 1$ causes the gains, so $eg^s = \Upsilon_N^s/\Upsilon_X^s > 1$. Without economies of scale - $\alpha^s = 1$ -, $eg^s = \Upsilon_N^s/\Upsilon_X^s = 1$ In the symmetric country case, $\Upsilon_N^s = \Upsilon_N^{s*} = \left(1+\tau^{1-\theta}\right)^{(\alpha^s-1)\zeta^s+1} - 1$ that is increasing in α^s.

The export cutoff can be rewritten by

$$\pi_X^s\left(z_X^s\right) + \frac{f_X^s w}{\alpha^s\left(Z^s\right)^{\frac{1}{\alpha^s}}} + \pi_{D,X}^s\left(z_X^s\right) - \pi_{D,N}^s\left(z_X^s\right) = \frac{f_X^s w}{\alpha^s\left(Z^s\right)^{\frac{1}{\alpha^s}}}$$
$$\tilde{\pi}_X^s + \tilde{\pi}_{D,X}^s - \pi_{D,N}^s\left(\tilde{z}_X^s\right) = \left[\left(\nu^s\right)^{\zeta^s} - 1\right] \frac{f_X^s w}{\alpha^s\left(Z^s\right)^{\frac{1}{\alpha^s}}} \tag{A.1}$$

where $\nu^s = \left[k^s/\left(k^s-\zeta^s\right)\right]^{1/\zeta^s}$ $\tilde{z}_X^s = \nu^s z_X^s$ and $\tilde{z}_N^s = \nu^s z_N^s$. The profit functions yield

$$\pi_{D,N}^s\left(\tilde{z}_X^s\right) = \frac{\left(\nu^s\right)^{\zeta^s}}{\Upsilon_N^s} \frac{f_X^s w}{\alpha^s\left(Z^s\right)^{\frac{1}{\alpha^s}}}. \tag{A.2}$$

Equivalently, I obtain that

$$\pi_{D,X}^s\left(\tilde{z}_X^s\right) = \tilde{\pi}_{D,X}^s = \frac{\left(\nu^s\right)^{\zeta^s}}{\Upsilon_X^s} \frac{f_X^s w}{\alpha^s\left(Z^s\right)^{\frac{1}{\alpha^s}}}, \tag{A.3}$$

because I define Υ_N^s and Υ_X^s subject to $eg^s = \pi_{D,X}^s(\cdot)/\pi_{D,N}^s(\cdot) = \Upsilon_N^s/\Upsilon_X^s$.

The free entry condition implies that

$$\left[1 - \left(\frac{\nu^s}{\tilde{z}_X^s}\right)^{k^s}\right] \tilde{\pi}_{D,N}^s + \left(\nu^s/\tilde{z}_X^s\right)^{k^s}\left(\tilde{\pi}_{D,X}^s + \tilde{\pi}_X^s\right) = \left[\frac{1}{\beta\left(1-\delta\right)} - 1\right] \frac{f_E^s w}{\alpha^s\left(Z^s\right)^{\frac{1}{\alpha^s}}}. \tag{A.4}$$

where $\tilde{\pi}_{D,N}^s = \pi_{D,N}^s\left(\tilde{z}_N^s\right)$. By using Equation (A.2) and $\tilde{z}_N^s = \tilde{z}_X^s\left\{\left[1 - \left(\tilde{z}_X^s/\nu^s\right)^{k^s-\zeta^s}\right] / \left[1 - \left(\tilde{z}_X^s/\nu^s\right)^{k^s}\right]\right\}^{1/\zeta^s}$, I obtain that

$$\left[\frac{1}{\beta\left(1-\delta\right)}-1\right]\frac{f_E^s w}{\alpha^s\left(Z^s\right)^{\frac{1}{\alpha^s}}}=\left[1-\left(\frac{\nu^s}{\tilde{z}_X^s}\right)^{k^s}\right]\tilde{\pi}_{D,N}^s+\left(\frac{\nu^s}{\tilde{z}_X^s}\right)^{k^s}\left\{\pi_{D,N}^s\left(\tilde{z}_X^s\right)+\left[\left(\nu^s\right)^{\zeta^s}-1\right]\frac{f_X^s w}{\alpha^s\left(Z^s\right)^{\frac{1}{\alpha^s}}}\right\}$$
$$=\left(\frac{\nu^s}{\tilde{z}_X^s}\right)^{\zeta^s}\pi_{D,N}\left(\tilde{z}_X\right)+\left(\frac{\nu^s}{\tilde{z}_X^s}\right)^{k^s}\left[\left(\nu^s\right)^{\zeta^s}-1\right]\frac{f_X^s w}{\alpha^s\left(Z^s\right)^{\frac{1}{\alpha^s}}}. \qquad (A.5)$$

Finally, I obtain the following equation that only depends on the export cutoff - $\tilde{z}_X^s$ -, exogenous variables, and parameters.

$$\left[\frac{1}{\beta\left(1-\delta\right)}-1\right]\frac{f_E^s}{f_X^s}=\frac{\left(\nu^s\right)^{\zeta^s}}{\Upsilon_N^s}\left(\frac{\nu^s}{\tilde{z}_X^s}\right)^{\zeta^s}+\left[\left(\nu^s\right)^{\zeta^s}-1\right]\left(\frac{\nu^s}{\tilde{z}_X^s}\right)^{k^s} \qquad (A.6)$$

Under the assumption of symmetric countries, $\Upsilon_N^s=\left(1+\tau^{1-\theta}\right)^{\left(\alpha^s-1\right)\zeta^s+1}-1$ is constant. Thus, the above equation is the unique implicit steady state solution to the cutoff. Equation (A.6) can be rewritten by

$$\left[\frac{1}{\beta\left(1-\delta\right)}-1\right]\frac{f_E^s}{f_X^s}=\frac{\left(\nu^s\right)^{\zeta^s}}{\Upsilon_N^s}\left(\frac{N_X^s}{N^s}\right)^{\frac{\zeta^s}{k^s}}+\left[\left(\nu^s\right)^{\zeta^s}-1\right]\left(\frac{N_X^s}{N^s}\right). \qquad (A.7)$$

Interestingly, the fraction of exporter does not depend on the other industry's characteristics in the steady state.

A.2 Derivations and Proof in Chapter 1

All derivations and proofs are similar to [Hanson and Xiang, 2004]. See Appendix in [Hanson and Xiang, 2004] for the more details.

For convenience, define a function by $\psi\left(s\right)\overset{\text{def}}{=}\left(w/w^*\right)^{-1-\left\{1-\left[1-\vartheta_l\left(s\right)\right]\alpha\left(s\right)\right\}\left[\theta\left(s\right)-1\right]}$. Then, the function is decreasing in w/w^* for positive w/w^*. For given $w/w^*>1$, the function is increasing in $\alpha\left(s\right)$ but decreasing in $\theta\left(s\right)$ and $\vartheta_l\left(s\right)$ Then, $g\left(s\right)$ can be rewritten 'as follows.

$$g\left(s\right)=\frac{Y}{x\left(s\right)/\psi\left(s\right)-1}-\frac{1}{x\left(s\right)\psi\left(s\right)-1}.$$

A.3 Proofs of Lemmas and Proposition

Derivations: number of firms

First, rewrite $n\left(s\right)$ as a function of Y and w/w^*. By using Equation(3.6) and (3.7), Equation (3.8) and (3.9) can be represented by

$$\frac{f_C\left(s\right)\tilde{n}\left(s\right)}{1-\alpha\left(s\right)/\mu\left(s\right)}=\frac{\phi\left(s\right)Yx\left(s\right)\tilde{n}\left(s\right)}{x\left(s\right)\tilde{n}\left(s\right)+\tilde{n}^*\left(s\right)/\psi\left(s\right)}+\frac{\phi\left(s\right)\tilde{n}\left(s\right)}{\tilde{n}\left(s\right)+x\left(s\right)\tilde{n}^*\left(s\right)/\psi\left(s\right)} \qquad (A.8)$$
$$\frac{f_C\left(s\right)\left[\tilde{n}\left(s\right)+\tilde{n}^*\left(s\right)\right]}{1-\alpha\left(s\right)/\mu\left(s\right)}=\phi\left(s\right)\left(Y+1\right) \qquad (A.9)$$

where $\tilde{n}(s) \overset{\text{def}}{=} wn(s)$ and $\tilde{n}^*(s) \overset{\text{def}}{=} w^* n^*(s)$. Thus, $\tilde{n}(s)$ is

$$\tilde{n}(s) = \frac{Y[x(s)]^2 - (Y+1)\,x(s)/\psi(s) + 1}{[x(s)]^2 - x(s)\,[1/\psi(s) + \psi(s)] + 1}\left[\frac{1-\alpha(s)/\mu(s)}{f_C(s)}\right]. \tag{A.10}$$

The number of home firms in industry s is $n(s) = \tilde{n}(s)/w$.

Proof of Lemma 1

Insert Equation (A.10) into Equation (3.10).

$$Y = \int_0^1 \frac{Y[x(s)]^2 - (Y+1)\,x(s)/\psi(s) + 1}{[x(s)]^2 - x(s)\,[1/\psi(s) + \psi(s)] + 1}\phi(s)\,ds \tag{A.11}$$

Since $Y = \int_0^1 \phi(s)\,Y\,ds$, I obtain the result.

$$0 = \int_0^1 \frac{Y[x(s) - 1/\psi(s)] - [1/\psi(s)]\,[x(s)/\psi(s) - 1]}{[x(s) - 1/\psi(s)]\,[x(s) - \psi(s)]}\phi(s)\,ds \tag{A.12}$$

$$= \int_0^1 \left\{\frac{Y}{x(s)/\psi(s) - 1} - \frac{1}{x(s)\,\psi(s) - 1}\right\}\phi(s)\,ds = \int_0^1 \phi(s)\,g(s)\,ds \tag{A.13}$$

Proof of Lemma 2

According to Lemma 1, it is enough to prove that $G(w/w^*)$ is strictly decreasing for positive w/w^*, $G(w/w^*) > 0$ and $G(w/w^*) \to -\infty$ when $w/w^* \to \overline{\text{TOL}}$. First, $G(1) > 0$ because $g(1) = (Y-1)/[x(s)-1]$ and $Y, x(s) > 1$. Second, $G(w/w^*) \to -\infty$ when $w/w^* \to \overline{\text{TOL}}$ because $g(s') \to$ at $w/w^* \to \overline{\text{TOL}}$ where $[x(s')]^{\frac{1}{1+\{1-[1-\vartheta_l(s)]\alpha(s)\}[\theta(s)-1]}} = \overline{\text{TOL}}$. Last, to show $G(w/w^*)$ is strictly decreasing, I prove that $g(s)$ is decreasing in $w/w^* > 0$ for all s. For all s,

$$\frac{\partial g(s)}{\partial w/w^*} = x(s)\left\{\frac{Y}{[x(s) - \psi(s)]^2} + \frac{1}{[x(s)\,\psi(s) - 1]^2}\right\}\frac{\partial \psi(s)}{\partial w/w^*}.$$

I showed that $\psi(s)$ is strictly decreasing in when w/w^* is positive. Thus, $g(s)$ is also decreasing in w/w^* for $w/w^* > 0$.

Proof of Proposition 1

The ratio of export to import is

$$\frac{ex(s)}{im(s)} = \frac{1 + x(s)\,\Psi(s)}{1 + x(s)/\Psi(s)}\frac{1}{Y}, \tag{A.14}$$

where $\Psi(s) = [\tilde{n}(s)/\tilde{n}^*(s)]\,\psi(s)$. By using Equation (A.10), $\Psi(s)$ can be rewritten as a function of $\psi(s)$.

$$\Psi(s) = \frac{\left\{[x(s)]^2\,Y + 1\right\}\psi(s) - (Y+1)\,x(s)}{[x(s)]^2 + Y - (Y+1)\,x(s)\,\psi(s)} \tag{A.15}$$

Then, $\Psi(s)$ is increasing in $\psi(s)$ because $x(s) > 1$:

$$\frac{\partial \Psi(s)}{\partial \psi(s)} = \frac{\left\{[x(s) - 1]^2\right\} Y}{\left\{[x(s)]^2 + Y - (Y+1)\, x(s)\, \psi(s)\right\}^2} > 0. \tag{A.16}$$

For given $w/w^* > 1$, $\psi(s)$ is increasing in $\alpha(s)$ but decreasing in $\theta(s)$ and $\vartheta_l(s)$. Hence, the home terms of appreciation ($w/w^* > 1$) implies that $\Psi(s)$ and $ex(s)/im(s)$ are increasing in $\alpha(s)$ but decreasing in $\theta(s)$ and $\vartheta_l(s)$, too.

Appendix B

DATA AND MEASUREMENT

B.1 Data and Measurement in Chapter 1

B.1.1 Cost Share-weighted Growth Rate in Total, Production, Nonproduction Inputs

I construct the cost share-weighted growth rate in total inputs as in the previous literature. The zero profit implies that the value of the shipment is the total cost. The capital input is real in the data. The material input is the material cost divided by the price index. The total labor input is measured as the total hours for production and nonproduction workers. Because the database does not cover hours for nonproduction workers, the value for total hours is estimated following the method used in [Baily et al., 1992]. I use averaged production labor and material cost shares in the total cost over the beginning and ending years of the period of change. The capital cost share is calculated by the remaining part of the sum of production labor and material cost shares. Also, I construct the cost share-weighted growth rate in production and nonproduction inputs. The total hours for production workers measure the production labor input. The ratio of nonproduction input to production input for labor is calculated by the ratio of payroll for nonproduction workers to payroll for production workers. The data contain the real capital and material but do not distinguish the production and nonproduction capital. Thus, I assume that the ratio of nonproduction inputs to production inputs for capital and material equals the ratio of nonproduction labor to production labor. The total production cost is the sum of costs of production labor, capital, and material inputs. As in the above way constructing the cost share-weighted growth rate in total inputs, the capital cost share in the total cost is constructed by as the remaining part of the sum of production labor and material cost shares in the production cost.

B.1.2 Industry-level Macro Data: U.S. Manufacturers

A data frequency is annual. I collect industry-level data in NBER-CES Manufacturing Industry Database from 1958 to 2011.(See [Bartelsman and Gray, 1996b] for the details.) I use the NAICS version.

Output I use the value of shipments deflated by the shipments deflator from the BEA.

Capital Input I use the real capital stock.

Labor Input The production workers' hours (production labor input) are reported in the data, but non-production workers' hours (non-production labor input) are not corrected. I calculate total and non-production labor inputs as in [Baily et al., 1992].

Material Input I use the cost of materials deflated by the material cost deflator calculated using data from the benchmark use-make (input-output) tables and the GDP-by-Industry data of the BEA.

B.2 Data and Measurement in Chapter 2

B.2.1 International Business Cycle Estimation

A data frequency is annual. All variables are logarithmic and HP-filtered with parameter 6.25.

I construct the six-digit NAICS level U.S. export and import flows from following bilateral trade data between the U.S. and its trading partners. I correct the bilateral trade data in [Schott, 2008]. [Schott, 2008] provides HS-level U.S. imports and exports data from 1989 to 2011. I convert the data to six digit NAICS by using [Pierce and Schott, 2009].

Exports I use the exports deflated by the shipments deflator from the BEA.

Imports I use the c.i.f imports deflated by the shipments deflator from the BEA.

The delator is corrected from the NBER-CES Manufacturing Industry Database, which does not cover the following industries: their six digit NAICS codes are 31131X, 31181X, 31511X, 32531X, 33631X, and 33641X. In these case, I use the average price deflator of industries with the same five digit NAICS group. 31131X: average of 311311–3. 31181X: average of 311811–3. 31511X: average of 315111 and 315119. 32531X: average of 325311–2 and 325314. 33631X: average of 336311–2. 33641X: average of 336411–5 and 336419.

B.2.2 Aggregate U.S. Variables

The data frequency is quarterly. I use seasonally adjusted variables. All variables are logarithmic and HP filtered with a smoothing parameter of 1600.

I collect aggregate GDP, consumption, investment, exports, imports, and labor data in Federal Reserve Economic Data (FRED). The sample period is from 1960:q1 to 2000:q4 to match [Ambler et al., 2004].

GDP GDPC1: Real Gross Domestic Product, Billions of Chained 2012 Dollars, Quarterly, Seasonally Adjusted Annual Rate

Consumption PCECC96: Real Personal Consumption Expenditures, Billions of Chained 2012 Dollars, Quarterly, Seasonally Adjusted Annual Rate

Investment GPDIC1: Real Gross Private Domestic Investment, Billions of Chained 2012 Dollars, Quarterly, Seasonally Adjusted Annual Rate

Exports EXPGSC1: Real Exports of Goods and Services, Billions of Chained 2012 Dollars, Quarterly, Seasonally Adjusted Annual Rate

IMPGSC1 EXPGSCA: Real imports of goods and services, Billions of Chained 2012 Dollars, Quarterly, Seasonally Adjusted Annual Rate

The number of entrants data is from private sector establishment births in BLS database. The sample period is from 1993:q2 to 2017:q4. When calculating its standard deviation relative to GDP and correlation to GDP, I use the real aggregate GDP from 1993:q2 to 2017:q4.

Number of Entrants I use private sector establishment births.

B.2.3 Cross-country Correlations

The data frequency is quarterly. International comovements data in Figures 2.5 and 2.6 are from Tables 1 and 5 in [Ambler et al., 2004]. First, Case I is from the first column of Table 1 in [Ambler et al., 2004] that is the average cross-correlation for 20 countries during the sample period from 1960:q1 to 2000:q4. The twenty countries in the sample are Australia, Austria, Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, South Africa, Spain, Sweden, Switzerland, the United Kingdom and the United States. Second, Case II is from the results for the unweighted average of nine countries in Table 5 in [Ambler et al., 2004] where the nine countries are: Australia, Austria, Canada, France, Germany, Italy, Japan, Switzerland, and the United Kingdom. The sample is from 1960:q1 to 2000:q4.

B.2.4 Instruments: Production Function Estimation

I use the following variables and their one-year lags.

Oil price shocks I collect monthly spot crude oil price: West Texas Intermediate (WTI) from FRED. As in [Hamilton, 2003], I construct the proxy of oil shocks by using the value of the oil price at time t relative to its largest value over the preceding 12 months: $\max\left\{0, \ln \text{Oil price}_t - \ln \text{Oil price}^{max}_{t-12,t-1}\right\}$ where $\text{Oil price}^{max}_{t-12,t-1}$ is the highest price of oil from $t-12$ and $t-1$. I use the real price of WTI (based on CPI). The annual oil price shocks are the sum of the monthly shocks.

Growth rate of government defense spending A489RA3A086NBEA from FRED: Real federal government consumption expenditures: Defense consumption expenditures: Gross output of general government: Intermediate goods and services purchased: Services (chain-type quantity index), Index 2009=100, annual

Monetary policy shocks The measure of monetary shocks is based on a monthly VAR model including the following log variables and 12 lags: the industrial production, the unemployment rate, the log of the CPI, and the log of a commodity price index, the federal funds rate, and M1. All data are from FRED. The error term from the fitted policy rule is the measure of the monetary shocks. The annual shocks are the sum of the monthly shocks.

Exogenous time dummies, excluding the unemployment, and using T-bill interest rate instead of the federal fund rate have no impact on the results.

President's party

B.2.5 Dropping Procedure

In Chapter 1, when I estimate the cost structure of industries, I drop some industries as follows. I drop 315211 and 315212 because calculated capital costs are negative in many years.[1] I remove industries (311811, 326212, 334611, and 339116) that have zero value of shipments (no observation) at least once across the sample period: making the balanced sample.

For each estimation, I drop negative value of γ_R, $\gamma_{y,R}$, α, and ϵ. Additionally, I drop the estimated value as follows.

- Benchmark
  - α is negative: I drop γ_R, $\gamma_{y,R}$, and α.
- Alternative
  - γ_R is negative: I drop γ_R, α, and ϵ.
  - $\gamma_{y,R}$ is negative: I drop $\gamma_{y,R}$, α, and ϵ.
  - I remove when α is larger than 5, which only happens when I use the alternative method. The main drawback of the alternative is that α is sensitive when ϵ is closed to one.

B.3 Data and Measurement in Chapter 3

B.3.1 Cost Structure

I follow [Basu and Fernald, 1997]. Industry level economies of scale, denoted by EOS (s), can be measured as follows. For an industry s,

$$\vartheta_{l,t}(s) = \vartheta_l(s) + \epsilon_{\vartheta_l,t}(s) \tag{B.1}$$

$$\vartheta_{m,t}(s) = \vartheta_m(s) + \epsilon_{\vartheta_m,t}(s) \tag{B.2}$$

$$\Delta Y_t(s) = \text{EOS}(s)\left[\vartheta_l(s)\,\Delta L_t(s) + \vartheta_m(s)\,\Delta M_t(s) + \vartheta_k(s)\,\Delta K_t(s)\right] + \Delta\tilde{Z}_t(s), \tag{B.3}$$

---

[1] Data do not provide the capital costs, thus I use total costs minus other costs.

where $\Delta Y_t(s)$, $\Delta L_t(s)$, $\Delta M_t(s)$, $\Delta K_t(s)$ and $\Delta \tilde{Z}_t^s$ are the growth rates of real output, labor, capital, materials and technology, respectively. $\vartheta_l(s)$ and $\vartheta_m(s)$ are the cost share of labor and materials in the total cost. The cost share of capital is $\vartheta_k(s) = 1 - \vartheta_l(s) - \vartheta_m(s)$.

The non-production input ratio to production input for labor is

$$\tilde{F}_{C,t}(s) = \tilde{F}_C(s) + \epsilon_{\tilde{F}_C,t}(s), \tag{B.4}$$

where $\tilde{F}_{C,t}^s$ is measured by the ratio of payroll for non-production workers to payroll for production workers.

I drop an industry if its estimated economies of scale are negative, which has no impact on all results.

I collect industry-level macro data in NBER-CES Manufacturing Industry Database from 1958 to 2011. (See [Bartelsman and Gray, 1996b] for the details.) I use 1987 SIC version.

Output Value of shipments deflated by the shipments deflator come from the BEA.

Total Cost Profits are unavailable. A previous empirical literature has documented zero profit on average industry-level. Thus, I use the value of shipments (nominal) as in [Basu and Fernald, 1997].

Capital Input The real capital stock. (millions of 1987 dollars)

Labor Input The labor input is not actually correlated. I follow [Baily et al., 1992].

Labor Cost Total payroll (nominal)

Production Labor Cost Production worker wages (nominal)

Non-Production Labor Cost Labor Cost – Production Labor Cost

Material Input The cost of materials deflated by the material cost deflator calculated using data from the benchmark use-make (input-output) tables and the GDP-by-Industry data of the BEA

Material Cost Cost of materials (nominal)

B.3.2 Product Differentiation

From data in [Pierce and Schott, 2009], I calculate a number of 10 digit HS products in industry s at time t. $N_{HS,t}^{EX}(s)$ and $N_{HS,t}^{IM}(s)$ are exports and imports based. Then, the number of trade products is $N_{HS,t} \stackrel{\text{def}}{=} N_{HS,t}^{EX}(s) + N_{HS,t}^{IM}(s)$. Then, the average number of products traded is $N_{HS} \stackrel{\text{def}}{=} (1/T) \sum_t N_{HS,t}(s)$ where T is the length of the year. Finally, the logarithmic number of products traded is $\mathrm{PD_{HS}}(s) \stackrel{\text{def}}{=} \ln N_{HS}$.

[Rauch, 1999] define the three product categories: goods traded on an organized exchange, reference priced, and differentiated products at the 4-digit SITC level. I convert the classification to the 4-digit SIC level as follows. For j-th SITC product in s-th SIC industry, $\mathrm{Rauch}_{j(s)} = 1$ if the industry is differentiated in [Rauch, 1999].

Otherwise, $\mathrm{Rauch}_{j(s)} = 0$. Then, the second proxy is defined by the average of [Rauch, 1999]'s classification: $\mathrm{PD}_{\mathrm{RC}}(s) \overset{\text{def}}{=} [1/N_{SITC}(s)] \sum \mathrm{Rauch}_{j(s)}$ where $N_{SITC}(s)$ is a number of SITC in s-th 4-digit SIC industries. Thus, it is between zero and one. [Rauch, 1999] provides "conservative" and "liberal" classifications, of which I use the conservative.

B.3.3 Bilateral Trade

I use the four digit SIC manufacturing sector bilateral trade flows of U.S. data from the U.S. Census Bureau from 1995 through 2014 (after World Trade Organization, WTO), which is constructed by [Schott, 2008] by using the concordances from [Bartelsman and Doms, 2000] and [Pierce and Schott, 2009]. I choose 22 countries, which are top 25 trade partner countries of the U.S. excluding Hong Kong, Taiwan, and Saudi Arabia. The 22 countries in the sample are AUS, BEL, BRA, CAN, CHE, CHL, CHN, COL, DEU, FRA, GBR, IND, IRL, ISR, ITA, JPN, KOR, MEX, MYS, NLD, SGP, and THA.

For country size, real GDP is obtained from Penn World Table 9.0. (See [Feenstra et al., 2015] for the details of database.)

GDP Expenditure-side real GDP at current PPPs (2011 US dollars)

GDP Real GDP at constant 2011 national prices (2011 US dollars)

Export Value of export (nominal: US dollars)

Import c.i.f. value of import (nominal: US dollars)

Appendix C

TABLES

Table C.1: Relationship between Production and Nonproduction Inputs

	Short-run: 1 Year Growth				Long-run: 10 Year Growth			
	Unweighted		Weighted		Unweighted		Weighted	
Correlation	Mean	Median	Mean	Median	Mean	Median	Mean	Median
$\Delta f\left(\mathbf{X}_y\right)$ and $\Delta f\left(\mathbf{X}_{\text{fc}}\right)$	0.418	0.472	0.468	0.560	0.705	0.808	0.729	0.831

Notes: The number of observations is 467 industries. For the weighted results I use the over-time average of industry's fraction of unfiltered nominal value of shipments: $\text{weight}^s_{PY} = (1/T)[\sum_t (P^s_t Y^s_t / \sum_{s'} P^{s'}_t Y^{s'}_t)]$.

Table C.2: Unweighted Estimated Cost Structures

	Total			SEOS			LEOS		
	Mean	Median	Median s.e.	Mean	Median	Median s.e.	Mean	Median	Median s.e.
Panel A: Uninstrumented GMM									
Benchmark: Equation (1.29)									
$\frac{\text{NPCOST}}{\text{PCOST}}$	0.645	0.540	0.015	0.663	0.525	0.014	0.629	0.543	0.015
γ_R	1.208	1.237	0.102	1.061	1.078	0.138	1.359	1.338	0.078
$\gamma_{y,R}$	1.086	1.081	0.046	1.025	1.027	0.056	1.141	1.127	0.041
α	1.160	1.198	0.086	1.023	1.061	0.106	1.304	1.287	0.070
Alternative: Equations (1.30) and (1.31)									
$\frac{\text{NPCOST}}{\text{PCOST}}$	0.645	0.540	0.015	0.654	0.521	0.014	0.636	0.546	0.015
γ_R	1.182	1.223	0.083	1.017	1.059	0.117	1.324	1.309	0.071
$\gamma_{y,R}$	0.952	0.992	0.098	0.812	0.845	0.114	1.073	1.085	0.082
α	1.158	1.031	0.218	0.876	0.780	0.203	1.361	1.194	0.219
Panel B: Instrumented GMM									
Benchmark: Equation (1.29)									
$\frac{\text{NPCOST}}{\text{PCOST}}$	0.645	0.540	0.015	0.668	0.543	0.015	0.620	0.534	0.015
γ_R	1.363	1.269	0.129	1.286	1.080	0.194	1.458	1.408	0.084
$\gamma_{y,R}$	1.135	1.094	0.063	1.061	1.028	0.080	1.205	1.164	0.047
α	1.199	1.201	0.109	1.054	1.071	0.134	1.404	1.351	0.090
Alternative: Equations (1.30) and (1.31)									
$\frac{\text{NPCOST}}{\text{PCOST}}$	0.645	0.540	0.015	0.692	0.546	0.016	0.617	0.529	0.014
γ_R	1.248	1.267	0.078	0.994	1.016	0.112	1.400	1.358	0.063
$\gamma_{y,R}$	1.043	1.064	0.074	0.855	0.877	0.099	1.157	1.142	0.062
α	1.265	1.167	0.215	0.932	0.754	0.265	1.444	1.274	0.200

Notes: In Panel B, I use GMM with the demand side instruments to estimate cost structure. (See Appendix B.2.4 for the details.) See Table C.11 for the results for each six-digit NAICS industry.

Table C.3: Unweighted Summary Statistics: Volatility

		Total			SEOS			LEOS		
		output	export	import	output	export	import	output	export	import
					Panel A: HP-filtered series					
Nondurable	mean	6.267	1.982	1.903	5.696	2.217	2.222	7.404	1.525	1.284
	median	5.846	1.386	1.204	5.417	1.552	1.414	7.049	1.163	1.031
Durable	mean	7.779	1.613	1.768	7.035	1.736	2.013	8.285	1.529	1.597
	median	7.188	1.269	1.468	6.807	1.337	1.539	7.727	1.223	1.419
Total	mean	7.151	1.759	1.821	6.345	1.978	2.118	8.019	1.528	1.513
	median	6.697	1.320	1.395	6.092	1.403	1.487	7.449	1.222	1.258
					Panel B: Growth rate					
Nondurable	mean	10.486	2.070	1.866	9.389	2.328	2.200	12.644	1.566	1.210
	median	9.651	1.452	1.241	8.825	1.550	1.415	11.963	1.244	1.021
Durable	mean	12.307	1.681	1.804	11.247	1.804	2.011	13.029	1.599	1.660
	median	11.189	1.336	1.449	10.632	1.401	1.565	11.823	1.263	1.414
Total	mean	11.551	1.835	1.828	10.290	2.067	2.106	12.913	1.590	1.539
	median	10.674	1.384	1.380	9.755	1.496	1.501	11.849	1.260	1.289

Notes: The numbers of industries are equal to the numbers in Table 2.1. Volatilities of output are measured by standard deviations in terms of percentage. Volatilities of imports and exports are measured by standard deviations relative to output.

Table C.4: Unweighted Summary Statistics: Cylicality

		Total			SEOS			LEOS		
		output	export	import	output	export	import	output	export	import
					Panel A: HP-filtered series					
Nondurable	mean	0.351	0.241	0.429	0.333	0.218	0.389	0.389	0.276	0.509
	median	0.360	0.244	0.495	0.352	0.244	0.474	0.421	0.242	0.528
Durable	mean	0.533	0.410	0.552	0.470	0.340	0.504	0.576	0.462	0.586
	median	0.574	0.465	0.622	0.505	0.401	0.574	0.641	0.534	0.667
Total	mean	0.457	0.343	0.503	0.400	0.279	0.447	0.520	0.412	0.565
	median	0.505	0.386	0.573	0.438	0.326	0.518	0.570	0.456	0.625
					Panel B: Growth rate					
Nondurable	mean	0.365	0.244	0.432	0.345	0.226	0.393	0.407	0.270	0.514
	median	0.358	0.265	0.473	0.357	0.260	0.448	0.381	0.284	0.550
Durable	mean	0.512	0.372	0.523	0.452	0.308	0.473	0.554	0.420	0.559
	median	0.549	0.396	0.595	0.475	0.328	0.537	0.594	0.469	0.619
Total	mean	0.451	0.322	0.487	0.397	0.267	0.433	0.509	0.380	0.547
	median	0.487	0.342	0.555	0.419	0.278	0.499	0.550	0.403	0.607

Notes: The numbers of industries are equal to the numbers in Table 2.2. Cyclicalities are correlations to the aggregated business cycle component of outputs that is the average of individual industry's business cycle component of the real value of shipments, which is weighted by using the unfiltered real output share in each year.

Table C.5: Regression Results: Alternative Cyclicality of Output and Market Structures

	Correlation to the Business Cycle Component of GDP							
	HP-filtered Series				Growth rates			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
b_1 : $\widetilde{\text{EOS}}_{MC}$	0.214***	0.211***	0.266***	0.269***	0.228***	0.233***	0.295***	0.287***
	(0.055)	(0.056)	(0.069)	(0.069)	(0.050)	(0.052)	(0.063)	(0.063)
$b_{1,D}$: $D \times \widetilde{\text{EOS}}_{MC}$			-0.002	-0.007			-0.010	0.019
			(0.110)	(0.113)			(0.100)	(0.103)
b_2 : $\widetilde{\text{EOS}}_{NC}$	-0.438***	-0.351***	0.110	0.160	-0.380***	-0.319***	0.175*	0.173*
	(0.053)	(0.060)	(0.102)	(0.106)	(0.049)	(0.055)	(0.092)	(0.096)
$b_{2,D}$: $D \times \widetilde{\text{EOS}}_{NC}$			-0.625***	-0.715***			-0.668***	-0.664***
			(0.113)	(0.127)			(0.103)	(0.115)
b_3 : $\ln \varepsilon$	-0.028	-0.028	-0.037*	-0.074**	-0.032	-0.033*	-0.042**	-0.073***
	(0.022)	(0.022)	(0.021)	(0.030)	(0.020)	(0.020)	(0.019)	(0.028)
$b_{3,D}$: $D \times \ln \varepsilon$				0.075*				0.056
				(0.042)				(0.038)
b_4 : $\ln \theta_m$		0.197***	0.213***	0.265***		0.137**	0.154***	0.107
		(0.065)	(0.063)	(0.091)		(0.060)	(0.057)	(0.082)
$b_{3,D}$: $D \times \ln \varepsilon$				-0.126				0.072
				(0.126)				(0.115)
b_5 : Constant	0.668***	0.715***	0.482***	0.482***	0.600***	0.641***	0.391***	0.349***
	(0.033)	(0.047)	(0.063)	(0.072)	(0.030)	(0.043)	(0.057)	(0.065)
$b_{5,D}$: D		0.074***	0.393***	0.378***		0.036	0.377***	0.442***
		(0.028)	(0.065)	(0.089)		(0.026)	(0.059)	(0.080)
Observations	351	351	351	351	351	351	351	351
R^2	0.194	0.233	0.294	0.303	0.196	0.214	0.299	0.304

Notes: Robust standard errors are in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). The real GDP data are from the Penn World Table 9.0.

Table C.6: Regression Results: Alternative Cyclicality of Export and Market Structures

	Correlation to the Business Cycle Component of GDP							
	HP-filtered Series				Growth rates			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
b_1 : $\widetilde{\text{EOS}}_{MC}$	0.362***	0.363***	0.338***	0.341***	0.341***	0.333***	0.302***	0.296***
	(0.064)	(0.067)	(0.086)	(0.087)	(0.054)	(0.057)	(0.072)	(0.072)
$b_{1,D}$: $D \times \widetilde{\text{EOS}}_{MC}$			0.088	0.080			0.112	0.134
			(0.137)	(0.142)			(0.115)	(0.118)
b_2 : $\widetilde{\text{EOS}}_{NC}$	-0.163***	-0.101	-0.037	-0.021	0.041	0.032	0.128	0.120
	(0.063)	(0.071)	(0.126)	(0.133)	(0.052)	(0.060)	(0.106)	(0.111)
$b_{2,D}$: $D \times \widetilde{\text{EOS}}_{NC}$			-0.097	-0.125			-0.143	-0.128
			(0.141)	(0.159)			(0.118)	(0.133)
b_3 : $\ln \varepsilon$	-0.067***	-0.068***	-0.068***	-0.074*	-0.067***	-0.066***	-0.066***	-0.083***
	(0.026)	(0.026)	(0.026)	(0.038)	(0.022)	(0.022)	(0.022)	(0.032)
$b_{3,D}$: $D \times \ln \varepsilon$				0.012				0.029
				(0.052)				(0.044)
b_4 : $\ln \theta_m$		0.141*	0.148*	0.174		-0.020	-0.010	-0.050
		(0.078)	(0.079)	(0.113)		(0.066)	(0.066)	(0.095)
$b_{3,D}$: $D \times \ln \varepsilon$				-0.053				0.068
				(0.158)				(0.132)
b_5 : Constant	0.331***	0.370***	0.343***	0.351***	0.151***	0.136***	0.094	0.065
	(0.039)	(0.056)	(0.078)	(0.090)	(0.032)	(0.047)	(0.065)	(0.075)
$b_{5,D}$: D		0.044	0.083	0.066		0.011	0.071	0.119
		(0.033)	(0.080)	(0.111)		(0.028)	(0.067)	(0.093)
Observations	351	351	351	351	351	351	351	351
R^2	0.123	0.136	0.138	0.139	0.140	0.141	0.146	0.148

Notes: Robust standard errors are in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). The real GDP data are from the Penn World Table 9.0.

Table C.7: Regression Results: Alternative Cyclicality of Import and Market Structures

	Correlation to the Business Cycle Component of GDP							
	HP-filtered Series				Growth rates			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
b_1 : $\widetilde{\text{EOS}}_{MC}$	0.212***	0.247***	0.263***	0.291***	0.119**	0.138**	0.175**	0.175**
	(0.061)	(0.062)	(0.078)	(0.077)	(0.053)	(0.055)	(0.070)	(0.070)
$b_{1,D}$: $D \times \widetilde{\text{EOS}}_{MC}$			0.009	-0.079			-0.017	-0.012
			(0.125)	(0.126)			(0.111)	(0.114)
b_2 : $\widetilde{\text{EOS}}_{NC}$	-0.343***	-0.173***	-0.015	0.136	-0.159***	-0.073	0.185*	0.233**
	(0.060)	(0.065)	(0.115)	(0.118)	(0.052)	(0.059)	(0.103)	(0.107)
$b_{2,D}$: $D \times \widetilde{\text{EOS}}_{NC}$			-0.216*	-0.491***			-0.347***	-0.433***
			(0.129)	(0.142)			(0.114)	(0.128)
b_3 : $\ln \varepsilon$	0.000	-0.005	-0.008	-0.043	-0.012	-0.015	-0.020	-0.066**
	(0.025)	(0.024)	(0.024)	(0.034)	(0.021)	(0.021)	(0.021)	(0.031)
$b_{3,D}$: $D \times \ln \varepsilon$				0.086*				0.091**
				(0.046)				(0.042)
b_4 : $\ln \theta_m$		0.385***	0.391***	0.658***		0.196***	0.204***	0.238***
		(0.071)	(0.072)	(0.101)		(0.064)	(0.064)	(0.091)
$b_{3,D}$: $D \times \ln \varepsilon$				-0.546***				-0.097
				(0.141)				(0.127)
b_5 : Constant	0.669***	0.809***	0.730***	0.831***	0.560***	0.633***	0.502***	0.487***
	(0.037)	(0.051)	(0.071)	(0.080)	(0.032)	(0.046)	(0.063)	(0.072)
$b_{5,D}$: D		0.056*	0.164**	-0.034		0.025	0.204***	0.212**
		(0.031)	(0.073)	(0.099)		(0.027)	(0.065)	(0.089)
Observations	351	351	351	351	351	351	351	351
R^2	0.108	0.188	0.195	0.234	0.040	0.069	0.093	0.106

Notes: Robust standard errors are in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All results are weighted by using the over-time average output share of industry defined in Equation (2.1). The real GDP data are from the Penn World Table 9.0.

Table C.8: IV Regression: Linear formula

	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	Panel A.1				Panel A.2			
	HME_1	HME_1	HME_1	HME_1	HME_2	HME_2	HME_2	HME_2
α	1.56***	1.64***	1.64***	1.98***	1.29***	1.39***	1.58***	1.94***
	(0.24)	(0.41)	(0.38)	(0.53)	(0.30)	(0.39)	(0.48)	(0.50)
$\tilde{F}_C$			0.04	0.13			0.11	0.22**
			(0.08)	(0.11)			(0.11)	(0.11)
$\mathrm{PD}_{\mathrm{RC}}$	0.37		0.51		0.64*		0.70*	
	(0.31)		(0.31)		(0.38)		(0.39)	
$\mathrm{PD}_{\mathrm{HS}}$		0.64**		0.59**		0.55**		0.49**
		(0.26)		(0.25)		(0.24)		(0.24)
ϑ_l	0.41	1.21	0.15	1.13	-1.67*	-0.37	-1.86**	-0.50
	(0.74)	(0.90)	(0.73)	(0.88)	(0.92)	(0.84)	(0.93)	(0.83)
ϑ_m	0.56*	-0.32	0.67*	0.01	-0.12	-0.92	0.13	-0.36
	(0.30)	(0.66)	(0.35)	(0.69)	(0.38)	(0.62)	(0.45)	(0.65)
Constant	-1.56***	-3.29***	-1.76***	-3.72***	-0.74*	-2.17***	-1.24**	-2.91***
	(0.31)	(0.89)	(0.49)	(1.00)	(0.38)	(0.83)	(0.62)	(0.94)
Observations	380	380	380	380	380	380	380	380

Notes: Standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. HME_1 and HME_2 are the home market effect coefficient without and with dummies, respectively. α and $\tilde{F}_C$ are the marginal cost coefficient and ratio of non-production input to production input (representing fixed costs), respectively. $\mathrm{PD}_{\mathrm{RC}}$ and $\mathrm{PD}_{\mathrm{HS}}$ are the measure of product differentiation based on [Rauch, 1999] classification and a logarithmic number of traded products in an industry, respectively. ϑ_l and ϑ_m are the labor and material input cost share, respectively.

Table C.9: IV Regression: Real GDP with PPP

	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	Panel A.1				Panel A.2			
	HME_1	HME_1	HME_1	HME_1	HME_2	HME_2	HME_2	HME_2
$\mathrm{EOS}_{\mathrm{MC}}$	1.35***	1.34***	1.58***	1.74***	1.26***	1.22***	1.83***	1.86***
	(0.22)	(0.42)	(0.39)	(0.64)	(0.27)	(0.35)	(0.49)	(0.59)
$\mathrm{EOS}_{\mathrm{FC}}$			0.50	0.77			1.21*	1.37
			(0.57)	(0.91)			(0.72)	(0.85)
$\mathrm{PD}_{\mathrm{RC}}$	0.45		0.65**		0.50		0.69*	
	(0.31)		(0.31)		(0.37)		(0.39)	
$\mathrm{PD}_{\mathrm{HS}}$		0.70**		0.64**		0.50**		0.51**
		(0.28)		(0.25)		(0.23)		(0.23)
LII	-0.11	0.04	-0.29	-0.12	-0.47**	-0.28*	-0.81***	-0.56**
	(0.16)	(0.19)	(0.19)	(0.28)	(0.20)	(0.16)	(0.24)	(0.26)
MII	0.10	-0.44	0.11	-0.35	-0.28	-0.64**	-0.21	-0.55*
	(0.16)	(0.37)	(0.17)	(0.36)	(0.19)	(0.31)	(0.22)	(0.33)
Constant	0.27	-1.95	-0.22	-2.07*	-0.71	-2.03**	-1.50**	-2.65**
	(0.50)	(1.22)	(0.52)	(1.19)	(0.61)	(1.03)	(0.66)	(1.11)
Observations	380	380	380	380	380	380	380	380

Notes: Standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. HME_1 and HME_2 are the home market effect coefficient using real GDP based on PPP without and with dummies, respectively. EOS is the logarithmic estimated economies of scale. $\mathrm{EOS}_{\mathrm{MC}}$ and $\mathrm{EOS}_{\mathrm{FC}}$ are the source of economies of scale derived from marginal and fixed costs, respectively. $\mathrm{PD}_{\mathrm{RC}}$ and $\mathrm{PD}_{\mathrm{HS}}$ are the measure of product differentiation based on [Rauch, 1999] classification and a number of traded products in an industry, respectively. LII and MII are the labor and material input intensities, respectively.

Table C.10: Industry Groups

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
311 Food Manufacturing					non-durable
311111	SEOS	SEOS	SEOS	SEOS	
311119		SEOS	SEOS	SEOS	
311211	SEOS	SEOS	SEOS	SEOS	
311212	SEOS	SEOS	SEOS	SEOS	
311213	SEOS	SEOS		SEOS	
311221	SEOS	SEOS			
311222	SEOS	SEOS		SEOS	
311223	SEOS	SEOS	LEOS	LEOS	
311225	SEOS	SEOS	SEOS	SEOS	
311230	SEOS	SEOS	SEOS	SEOS	
311311	SEOS	SEOS	SEOS	SEOS	
311312	SEOS	SEOS	SEOS	SEOS	
311313	SEOS	SEOS	SEOS	SEOS	
311320	SEOS	SEOS	SEOS	SEOS	
311330	SEOS	SEOS	SEOS	SEOS	
311340	SEOS	SEOS	SEOS	SEOS	
311411	SEOS	SEOS	SEOS	SEOS	
311412	SEOS	SEOS	SEOS	LEOS	
311421	SEOS	SEOS	SEOS	SEOS	
311422	SEOS	SEOS	LEOS	LEOS	
311423	LEOS	SEOS	LEOS	LEOS	
311511	SEOS	SEOS	SEOS	SEOS	
311512	SEOS	SEOS		SEOS	
311513	SEOS	SEOS		SEOS	
311514	SEOS	SEOS		SEOS	
311520	SEOS	SEOS	SEOS	SEOS	
311611	SEOS	SEOS		SEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
311612	SEOS	SEOS	SEOS	SEOS	
311613	SEOS	SEOS	SEOS	SEOS	
311615	SEOS	SEOS	SEOS	SEOS	
311711	SEOS	SEOS	SEOS	SEOS	
311712	SEOS	SEOS	SEOS	SEOS	
311812	SEOS	SEOS	SEOS	SEOS	
311813	LEOS	LEOS	LEOS	LEOS	
311821		SEOS	SEOS	SEOS	
311822	SEOS	SEOS	SEOS	SEOS	
311823	SEOS	SEOS	SEOS	LEOS	
311830	LEOS	LEOS	SEOS	LEOS	
311911	SEOS	SEOS	SEOS	LEOS	
311919	SEOS	SEOS	SEOS	SEOS	
311920					
311930	SEOS	SEOS	SEOS	SEOS	
311941	LEOS	LEOS	LEOS	LEOS	
311942	LEOS	LEOS	LEOS	LEOS	
311991	LEOS	LEOS	LEOS	LEOS	
311999	LEOS	LEOS	LEOS	LEOS	
312 Beverage and Tobacco Product Manufacturing					non-durable
312111	SEOS	SEOS	SEOS	SEOS	
312112	SEOS	SEOS	SEOS	SEOS	
312113	SEOS	SEOS	SEOS	SEOS	
312120	SEOS	SEOS			
312130	SEOS	SEOS		SEOS	
312140	SEOS	SEOS	SEOS	SEOS	
312210	SEOS	SEOS	SEOS	SEOS	
312221	SEOS	SEOS	SEOS	SEOS	
312229	SEOS	SEOS	SEOS	SEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
313 Textile Mills					non-durable
313111	SEOS	SEOS	SEOS	SEOS	
313112	SEOS	SEOS	SEOS	SEOS	
313113	LEOS	LEOS	LEOS	LEOS	
313210	SEOS	SEOS	LEOS	LEOS	
313221	SEOS	SEOS	SEOS	SEOS	
313222	LEOS	LEOS	LEOS	LEOS	
313230	SEOS	SEOS	SEOS	SEOS	
313241	LEOS	LEOS	SEOS	LEOS	
313249	LEOS	LEOS	LEOS	LEOS	
313311	SEOS	SEOS	SEOS	SEOS	
313312	LEOS	LEOS	SEOS	SEOS	
313320	LEOS	LEOS	LEOS	LEOS	
314 Textile Product Mills					non-durable
314110	SEOS	SEOS	LEOS	LEOS	
314121	LEOS	LEOS	SEOS	LEOS	
314129	LEOS	LEOS	SEOS	LEOS	
314911	SEOS	SEOS	SEOS	SEOS	
314912	LEOS	LEOS	SEOS	SEOS	
314991	SEOS	SEOS	SEOS	LEOS	
314992	SEOS	SEOS	SEOS	SEOS	
314999	LEOS	LEOS	LEOS	LEOS	
315 Apparel Manufacturing					non-durable
315111	LEOS	LEOS	SEOS	SEOS	
315119	LEOS	LEOS	SEOS	SEOS	
315191	LEOS	LEOS	SEOS	LEOS	
315192	LEOS	LEOS	LEOS	LEOS	
315221	LEOS	LEOS	LEOS	LEOS	
315222	LEOS	LEOS	SEOS	SEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
315223	LEOS	LEOS	LEOS	LEOS	
315224	LEOS	LEOS	LEOS	LEOS	
315225	LEOS	LEOS	SEOS	SEOS	
315228	LEOS	LEOS	SEOS	SEOS	
315231	LEOS	LEOS	LEOS	LEOS	
315232	SEOS	SEOS	SEOS	LEOS	
315233	LEOS	LEOS	SEOS	LEOS	
315234	SEOS	LEOS	LEOS	LEOS	
315239	LEOS	LEOS	LEOS	LEOS	
315291	LEOS	LEOS	LEOS	LEOS	
315292	SEOS	SEOS	SEOS	SEOS	
315299	LEOS	SEOS	LEOS	LEOS	
315991	SEOS	SEOS	SEOS	SEOS	
315992	SEOS	SEOS	SEOS	SEOS	
315993	SEOS	SEOS	SEOS	SEOS	
315999	LEOS	LEOS	LEOS	LEOS	
316 Leather and Allied Product Manufacturing					non-durable
316110	SEOS	SEOS	SEOS	SEOS	
316211	SEOS	SEOS	SEOS	SEOS	
316212	LEOS	LEOS	SEOS	LEOS	
316213	LEOS	LEOS	SEOS	SEOS	
316214	LEOS	LEOS	SEOS	SEOS	
316219	LEOS	LEOS	SEOS	LEOS	
316991	SEOS	SEOS	SEOS	SEOS	
316992	LEOS	LEOS	LEOS	LEOS	
316993	SEOS	SEOS	SEOS	SEOS	
316999	LEOS	LEOS	SEOS	SEOS	
321 Wood Product Manufacturing					durable
321113	SEOS	SEOS	SEOS	SEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
321114	SEOS	SEOS	SEOS	SEOS	
321211	SEOS	SEOS	SEOS	LEOS	
321212	SEOS	LEOS	SEOS	SEOS	
321213	LEOS	LEOS	LEOS	LEOS	
321214	LEOS	LEOS	SEOS	SEOS	
321219	SEOS	SEOS	SEOS	SEOS	
321911	LEOS	LEOS	SEOS	LEOS	
321912	SEOS	SEOS	SEOS	LEOS	
321918	LEOS	LEOS	LEOS	LEOS	
321920	SEOS	SEOS	SEOS	SEOS	
321991	LEOS	LEOS	LEOS	LEOS	
321992	LEOS	LEOS	LEOS	LEOS	
321999	SEOS	SEOS	SEOS	SEOS	
322 Paper Manufacturing					non-durable
322110	SEOS	SEOS	SEOS	SEOS	
322121		SEOS	LEOS	LEOS	
322122	SEOS	SEOS	SEOS	SEOS	
322130	SEOS	SEOS	SEOS	LEOS	
322211	SEOS	SEOS	SEOS	SEOS	
322212	SEOS	SEOS	SEOS	LEOS	
322213	SEOS	SEOS	SEOS	SEOS	
322214	LEOS	LEOS	LEOS	LEOS	
322215	SEOS	SEOS	SEOS	LEOS	
322221	SEOS	SEOS	SEOS	LEOS	
322222	LEOS	LEOS	LEOS	LEOS	
322223	SEOS	SEOS	LEOS	LEOS	
322224	SEOS	SEOS	SEOS	SEOS	
322225	LEOS	LEOS	LEOS	LEOS	
322226	SEOS	SEOS	LEOS	LEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
322231	LEOS	LEOS	LEOS	LEOS	
322232	LEOS	LEOS	LEOS	LEOS	
322233	SEOS	SEOS	SEOS	SEOS	
322291	LEOS	LEOS	LEOS	LEOS	
322299	LEOS	LEOS	LEOS	LEOS	
323 Printing and Related Support Activities					non-durable
323110	LEOS	LEOS	SEOS	LEOS	
323111	LEOS	LEOS	SEOS	LEOS	
323112	LEOS	LEOS	LEOS	LEOS	
323113	SEOS	SEOS	SEOS	SEOS	
323114	SEOS	SEOS	SEOS	LEOS	
323115	LEOS	LEOS	LEOS	LEOS	
323116	LEOS	LEOS	LEOS	LEOS	
323117	SEOS	SEOS	SEOS	SEOS	
323118	LEOS	LEOS	SEOS	SEOS	
323119	SEOS	SEOS	SEOS	LEOS	
323121	SEOS	SEOS	SEOS	SEOS	
323122	SEOS	SEOS	LEOS	LEOS	
324 Petroleum and Coal Products Manufacturing					non-durable
324110	SEOS	SEOS	SEOS	SEOS	
324121	SEOS	SEOS	LEOS	LEOS	
324122		SEOS	LEOS	LEOS	
324191	SEOS	SEOS	LEOS	LEOS	
324199	SEOS	SEOS	SEOS	SEOS	
325 Chemical Manufacturing					non-durable
325110	SEOS	SEOS	SEOS	LEOS	
325120	LEOS	LEOS	LEOS	LEOS	
325131	SEOS	SEOS	SEOS	SEOS	
325132	SEOS	SEOS	SEOS	SEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
325181	LEOS	LEOS	SEOS	SEOS	
325182	SEOS	SEOS	LEOS	LEOS	
325188	LEOS	LEOS	LEOS	LEOS	
325191	SEOS	SEOS	SEOS	SEOS	
325192	SEOS	SEOS	SEOS	LEOS	
325193	SEOS	SEOS	SEOS	SEOS	
325199	SEOS	SEOS	SEOS	LEOS	
325211	SEOS	SEOS	SEOS	LEOS	
325212	SEOS	SEOS	SEOS	SEOS	
325221	LEOS	SEOS	SEOS	SEOS	
325222	SEOS	SEOS	LEOS	LEOS	
325311	SEOS	SEOS	SEOS	SEOS	
325312	SEOS	SEOS	LEOS	LEOS	
325314	SEOS	SEOS	LEOS	LEOS	
325320	SEOS	SEOS	SEOS	SEOS	
325411	LEOS	LEOS	LEOS	LEOS	
325412	SEOS	SEOS	LEOS	LEOS	
325413	LEOS	LEOS	SEOS	SEOS	
325414	SEOS	LEOS	SEOS	SEOS	
325510	SEOS	SEOS	SEOS	LEOS	
325520	SEOS	SEOS	LEOS	LEOS	
325611	SEOS	SEOS	SEOS	SEOS	
325612	SEOS	SEOS	SEOS	SEOS	
325613	SEOS	SEOS	LEOS	LEOS	
325620	SEOS	SEOS	SEOS	SEOS	
325910	SEOS	SEOS	LEOS	LEOS	
325920	LEOS	LEOS	LEOS	LEOS	
325991	SEOS	LEOS	LEOS	LEOS	
325992	SEOS	SEOS	SEOS	SEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
325998	SEOS	SEOS	LEOS	LEOS	
326 Plastics and Rubber Products Manufacturing					non-durable
326111	SEOS	SEOS	SEOS	SEOS	
326112	SEOS	SEOS	SEOS	LEOS	
326113	LEOS	LEOS		LEOS	
326121	LEOS	LEOS	LEOS	LEOS	
326122	SEOS	SEOS	LEOS	LEOS	
326130	LEOS	LEOS	SEOS	LEOS	
326140	SEOS	SEOS	LEOS	LEOS	
326150	LEOS	LEOS	LEOS	LEOS	
326160	SEOS	SEOS	LEOS	LEOS	
326191	LEOS	LEOS	LEOS	LEOS	
326192	LEOS	LEOS	LEOS	LEOS	
326199	LEOS	LEOS		LEOS	
326211	SEOS	SEOS	LEOS	LEOS	
326220	LEOS	LEOS	LEOS	LEOS	
326291	LEOS	LEOS	SEOS	LEOS	
326299	LEOS	LEOS	LEOS	LEOS	
327 Nonmetallic Mineral Product Manufacturing					durable
327111		LEOS	LEOS	LEOS	
327112	LEOS	SEOS	SEOS	SEOS	
327113	LEOS	LEOS	LEOS	LEOS	
327121	LEOS	LEOS	SEOS	LEOS	
327122	SEOS	SEOS	SEOS	SEOS	
327123	SEOS	SEOS	SEOS	SEOS	
327124	LEOS	LEOS	LEOS	LEOS	
327125	LEOS	LEOS	LEOS	LEOS	
327211	SEOS	LEOS	SEOS	LEOS	
327212	SEOS	SEOS	LEOS	LEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
327213	SEOS	SEOS	SEOS	SEOS	
327215	SEOS	LEOS	LEOS	LEOS	
327310	SEOS	LEOS	SEOS	LEOS	
327320	LEOS	LEOS	LEOS	LEOS	
327331	LEOS	LEOS	SEOS	SEOS	
327332	LEOS	LEOS	LEOS	LEOS	
327390	LEOS	LEOS	LEOS	LEOS	
327410	SEOS	SEOS	LEOS	LEOS	
327420	LEOS	LEOS	SEOS	LEOS	
327910	LEOS	LEOS	LEOS	LEOS	
327991	LEOS	LEOS	LEOS	LEOS	
327992	SEOS	SEOS	SEOS	SEOS	
327993	LEOS	LEOS	LEOS	LEOS	
327999	SEOS	SEOS	SEOS	SEOS	
331 Primary Metal Manufacturing					durable
331111	SEOS	LEOS	SEOS	LEOS	
331112	SEOS	SEOS	SEOS	LEOS	
331210	LEOS	LEOS	LEOS	LEOS	
331221	LEOS	LEOS	LEOS	LEOS	
331222	LEOS	LEOS		LEOS	
331311	SEOS	SEOS	SEOS	SEOS	
331312	SEOS	SEOS	SEOS	LEOS	
331314	SEOS	SEOS	SEOS	SEOS	
331315	SEOS	SEOS	LEOS	LEOS	
331316	SEOS	SEOS	LEOS	LEOS	
331319	LEOS	LEOS	LEOS	LEOS	
331411	SEOS	SEOS	SEOS	SEOS	
331419	SEOS	SEOS	SEOS	SEOS	
331421	SEOS	SEOS	LEOS	LEOS	

Continued on next page

Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
331422	SEOS	SEOS	SEOS	SEOS	
331423	SEOS	SEOS	SEOS	SEOS	
331491	SEOS	SEOS	SEOS	LEOS	
331492	SEOS	SEOS	SEOS	SEOS	
331511	LEOS	LEOS	SEOS	LEOS	
331512	LEOS	LEOS	SEOS	LEOS	
331513	LEOS	LEOS	SEOS	LEOS	
331521	SEOS	LEOS	LEOS	LEOS	
331522	LEOS	LEOS	LEOS	LEOS	
331524	LEOS	LEOS	LEOS	LEOS	
331525	SEOS	SEOS	SEOS	SEOS	
331528	SEOS	SEOS	SEOS	SEOS	
332 Fabricated Metal Product Manufacturing					durable
332111	LEOS	LEOS	LEOS	LEOS	
332112	SEOS	SEOS	SEOS	SEOS	
332114	SEOS	SEOS	LEOS	LEOS	
332115	LEOS	LEOS	LEOS	LEOS	
332116	LEOS	LEOS	LEOS	LEOS	
332117	LEOS	SEOS	SEOS	SEOS	
332211	SEOS	SEOS	LEOS	LEOS	
332212	LEOS	LEOS	LEOS	LEOS	
332213	SEOS	SEOS	LEOS	LEOS	
332214	SEOS	LEOS	SEOS	SEOS	
332311	SEOS	SEOS	LEOS	LEOS	
332312	SEOS	SEOS	SEOS	SEOS	
332313	LEOS	SEOS	SEOS	SEOS	
332321	LEOS	LEOS	LEOS	LEOS	
332322	LEOS	LEOS	LEOS	LEOS	
332323	SEOS	LEOS	LEOS	LEOS	

Continued on next page

Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
332410	SEOS	LEOS	SEOS	SEOS	
332420	LEOS	LEOS	SEOS	SEOS	
332431	SEOS	SEOS		SEOS	
332439	SEOS	SEOS	LEOS	LEOS	
332510	LEOS	LEOS	LEOS	LEOS	
332611	LEOS	LEOS	LEOS	LEOS	
332612	LEOS	LEOS	LEOS	LEOS	
332618	LEOS	LEOS	LEOS	LEOS	
332710	SEOS	LEOS	SEOS	LEOS	
332721	LEOS	LEOS	LEOS	LEOS	
332722	LEOS	LEOS	LEOS	LEOS	
332811	SEOS	LEOS	LEOS	LEOS	
332812	SEOS	SEOS	SEOS	SEOS	
332813	LEOS	LEOS	LEOS	LEOS	
332911	LEOS	LEOS	SEOS	LEOS	
332912	LEOS	LEOS	LEOS	LEOS	
332913	LEOS	LEOS	LEOS	LEOS	
332919	LEOS	LEOS	LEOS	LEOS	
332991	LEOS	LEOS	SEOS	LEOS	
332992	SEOS	SEOS	SEOS	SEOS	
332993	LEOS	LEOS	SEOS	SEOS	
332994	SEOS	LEOS	SEOS	SEOS	
332995	SEOS	SEOS	SEOS	SEOS	
332996	LEOS	SEOS	SEOS	LEOS	
332997	LEOS	LEOS	LEOS	LEOS	
332998	LEOS	LEOS	LEOS	LEOS	
332999	SEOS	SEOS	SEOS	LEOS	
333 - Machinery manufacturing					durable
333111	LEOS	LEOS	SEOS	SEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
333112	LEOS	LEOS	LEOS	LEOS	
333120	SEOS	LEOS	SEOS	LEOS	
333131	LEOS	LEOS	SEOS	LEOS	
333132	LEOS	LEOS	LEOS	LEOS	
333210	LEOS	LEOS	LEOS	LEOS	
333220	LEOS	LEOS	LEOS	LEOS	
333291	SEOS	SEOS	SEOS	SEOS	
333292	LEOS	LEOS	LEOS	LEOS	
333293	LEOS	LEOS	SEOS	LEOS	
333294	LEOS	LEOS	LEOS	LEOS	
333295	LEOS	LEOS	SEOS	SEOS	
333298	LEOS	LEOS	LEOS	LEOS	
333311	LEOS	LEOS	LEOS	LEOS	
333312	SEOS	SEOS	SEOS	SEOS	
333313	SEOS	SEOS	LEOS	LEOS	
333314	LEOS	LEOS	SEOS	LEOS	
333315	SEOS	SEOS	SEOS	LEOS	
333319	LEOS	LEOS	LEOS	LEOS	
333411	SEOS	SEOS	LEOS	LEOS	
333412	SEOS	SEOS	SEOS	LEOS	
333414	LEOS	LEOS	SEOS	LEOS	
333415	LEOS	LEOS	LEOS	LEOS	
333511	LEOS	LEOS		LEOS	
333512	LEOS	LEOS	SEOS	LEOS	
333513	LEOS	LEOS	LEOS	LEOS	
333514	LEOS	LEOS	SEOS	LEOS	
333515	LEOS	LEOS	LEOS	LEOS	
333516	LEOS	LEOS	SEOS	SEOS	
333518	LEOS	LEOS	SEOS	SEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
333611	SEOS	SEOS	SEOS	SEOS	
333612	LEOS	LEOS	SEOS	LEOS	
333613	LEOS	LEOS	LEOS	LEOS	
333618	LEOS	LEOS	LEOS	LEOS	
333911	LEOS	LEOS	SEOS	SEOS	
333912	SEOS	SEOS	LEOS	LEOS	
333913	SEOS	SEOS	LEOS	LEOS	
333921	SEOS	SEOS	SEOS	LEOS	
333922	LEOS	LEOS	LEOS	LEOS	
333923	LEOS	LEOS	LEOS	LEOS	
333924	LEOS	LEOS	LEOS	LEOS	
333991	LEOS	LEOS	SEOS	LEOS	
333992	SEOS	SEOS	SEOS	LEOS	
333993	LEOS	LEOS	SEOS	LEOS	
333994	LEOS	LEOS	SEOS	LEOS	
333995	SEOS	SEOS	LEOS	LEOS	
333996	LEOS	LEOS	LEOS	LEOS	
333997	SEOS	LEOS	LEOS	LEOS	
333999	SEOS	SEOS	SEOS	SEOS	
334 Computer and Electronic Product Manufacturing					durable
334111	LEOS	LEOS	SEOS	SEOS	
334112	SEOS	SEOS	LEOS	LEOS	
334113	LEOS	LEOS	LEOS	LEOS	
334119	SEOS	SEOS	SEOS	SEOS	
334210	LEOS	LEOS	LEOS	LEOS	
334220	SEOS	SEOS	SEOS	SEOS	
334290	LEOS	LEOS	SEOS	SEOS	
334310	SEOS	SEOS	SEOS	SEOS	
334411	SEOS	LEOS	LEOS	LEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
334412	LEOS	LEOS	SEOS	SEOS	
334413	LEOS	LEOS	SEOS	LEOS	
334414	LEOS	LEOS	SEOS	SEOS	
334415	LEOS	LEOS	LEOS	LEOS	
334416	LEOS	LEOS	LEOS	LEOS	
334417	LEOS	SEOS	LEOS	LEOS	
334418	LEOS	LEOS	SEOS	SEOS	
334419	SEOS	SEOS		SEOS	
334510	SEOS	SEOS	SEOS	SEOS	
334511	SEOS	SEOS	SEOS	SEOS	
334512	LEOS	LEOS	LEOS	LEOS	
334513	SEOS	LEOS	SEOS	SEOS	
334514	SEOS	LEOS	LEOS	LEOS	
334515	LEOS	LEOS	LEOS	LEOS	
334516	LEOS	LEOS	SEOS	LEOS	
334517	SEOS	LEOS	SEOS	SEOS	
334518	LEOS	SEOS	SEOS	LEOS	
334519	SEOS	SEOS	SEOS	SEOS	
334612	SEOS	SEOS	SEOS	SEOS	
334613	SEOS	SEOS	SEOS	SEOS	
335 Electrical Equipment, Appliance, and Component Manufacturing					durable
335110	LEOS	LEOS	LEOS	LEOS	
335121	LEOS	SEOS	LEOS	LEOS	
335122	LEOS	LEOS	LEOS	LEOS	
335129	LEOS	LEOS	LEOS	LEOS	
335211	SEOS	LEOS	SEOS	SEOS	
335212	LEOS	LEOS	LEOS	LEOS	
335221	SEOS	SEOS	SEOS	SEOS	
335222	SEOS	SEOS	SEOS	SEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
335224	LEOS	LEOS	LEOS	LEOS	
335228	SEOS	LEOS	SEOS	LEOS	
335311	LEOS	LEOS	LEOS	LEOS	
335312	LEOS	LEOS	LEOS	LEOS	
335313	LEOS	LEOS	LEOS	LEOS	
335314	LEOS	LEOS	LEOS	LEOS	
335911	SEOS	SEOS	SEOS	LEOS	
335912	SEOS	SEOS	SEOS	SEOS	
335921	SEOS	SEOS	SEOS	SEOS	
335929	SEOS	SEOS	SEOS	LEOS	
335931	LEOS	LEOS	LEOS	LEOS	
335932	LEOS	LEOS	LEOS	LEOS	
335991	SEOS	LEOS	LEOS	LEOS	
335999	LEOS	LEOS		LEOS	
336 Transportation Equipment Manufacturing					durable
336111	LEOS	LEOS	SEOS	LEOS	
336112	SEOS	LEOS	LEOS	LEOS	
336120	LEOS	LEOS	SEOS	LEOS	
336211	SEOS	LEOS	SEOS	LEOS	
336212	LEOS	LEOS	LEOS	LEOS	
336213	LEOS	LEOS	LEOS	LEOS	
336214	LEOS	LEOS	LEOS	LEOS	
336311	LEOS	LEOS	SEOS	LEOS	
336312	SEOS	LEOS	LEOS	LEOS	
336321	SEOS	LEOS	SEOS	LEOS	
336322	LEOS	LEOS	SEOS	LEOS	
336330	LEOS	LEOS	LEOS	LEOS	
336340	LEOS	LEOS	LEOS	LEOS	
336350	LEOS	LEOS	LEOS	LEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
336360	SEOS	SEOS	SEOS	SEOS	
336370	LEOS	LEOS		LEOS	
336391	LEOS	LEOS	LEOS	LEOS	
336399	LEOS	LEOS	LEOS	LEOS	
336411	SEOS	SEOS	SEOS	LEOS	
336412	LEOS	LEOS	LEOS	LEOS	
336413	SEOS	SEOS	SEOS	SEOS	
336414	SEOS	SEOS	SEOS	SEOS	
336415	SEOS	LEOS	LEOS	LEOS	
336419	LEOS	LEOS	LEOS	LEOS	
336510	LEOS	LEOS	LEOS	LEOS	
336611	SEOS	SEOS	SEOS	SEOS	
336612	LEOS	LEOS	SEOS	LEOS	
336991	LEOS	LEOS	LEOS	LEOS	
336992	LEOS	LEOS		LEOS	
336999	SEOS	LEOS	LEOS	LEOS	
337 Furniture and Related Product Manufacturing					durable
337110	LEOS	LEOS	SEOS	LEOS	
337121	LEOS	LEOS	LEOS	LEOS	
337122	LEOS	LEOS	LEOS	LEOS	
337124	LEOS	LEOS	LEOS	LEOS	
337125	LEOS	LEOS	LEOS	SEOS	
337127	SEOS	SEOS	LEOS	LEOS	
337129	LEOS	SEOS	LEOS	LEOS	
337211	LEOS	LEOS	LEOS	LEOS	
337212	LEOS	LEOS	LEOS	LEOS	
337214	LEOS	LEOS	LEOS	LEOS	
337215	LEOS	LEOS	SEOS	LEOS	
337910	LEOS	LEOS	LEOS	LEOS	

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Table C.10 – continued from previous page

	Uninstrumented		Uninstrumented		
6 Digit NAICS	Benchmark	Alternative	Benchmark	Alternative	Classification
337920	LEOS	LEOS	LEOS	LEOS	
339 Miscellaneous Manufacturing					durable
339111	LEOS	LEOS	SEOS	SEOS	
339112	SEOS	SEOS	SEOS	SEOS	
339113	LEOS	LEOS	SEOS	LEOS	
339114	SEOS	SEOS	SEOS	SEOS	
339115	SEOS	SEOS	LEOS	LEOS	
339911	LEOS	LEOS	SEOS	LEOS	
339912	LEOS	LEOS	LEOS	LEOS	
339913	SEOS	SEOS		SEOS	
339914	LEOS	LEOS	SEOS	SEOS	
339920	SEOS	LEOS	SEOS	SEOS	
339931	LEOS	LEOS	SEOS	SEOS	
339932	LEOS	LEOS	LEOS	LEOS	
339941	LEOS	LEOS	SEOS	LEOS	
339942	SEOS	SEOS	LEOS	LEOS	
339943	LEOS	LEOS	LEOS	LEOS	
339944	SEOS	LEOS	SEOS	SEOS	
339950	LEOS	LEOS	SEOS	LEOS	
339991	LEOS	LEOS	SEOS	LEOS	
339992	LEOS	SEOS	LEOS	LEOS	
339993	SEOS	LEOS	SEOS	SEOS	
339994	SEOS	SEOS	LEOS	LEOS	
339995	SEOS	SEOS	SEOS	SEOS	
339999	LEOS	LEOS	LEOS	LEOS	

Table C.11: Cost Structure Estimation: Uninstrumented

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
311111	0.936	(0.092)	1.022	(0.086)	0.917	(0.142)	0.983	(0.150)	1.012	(0.320)	0.862	(2.334)
311119			0.092	(4.263)	0.805	(0.094)	0.783	(0.087)	0.762	(0.090)		
311211	0.524	(0.276)	0.391	(0.249)	0.222	(0.073)	0.193	(0.056)	0.216	(0.078)	3.124	(9.392)
311212	0.663	(0.095)	0.505	(0.080)	0.264	(0.087)	0.272	(0.082)	0.336	(0.081)	2.016	(2.158)
311213	0.009	(0.089)	0.006	(0.056)	0.143	(0.074)	0.148	(0.076)	0.110	(0.061)		
311221	0.209	(0.207)	0.129	(0.129)	0.180	(0.110)	0.174	(0.108)	0.143	(0.125)		
311222	0.476	(0.228)	0.234	(0.125)	0.455	(0.098)	0.454	(0.096)	0.438	(0.105)		
311223	0.426	(2.425)			0.727	(0.068)	0.729	(0.065)	0.690	(0.077)		
311225	0.584	(0.680)			0.739	(0.100)	0.738	(0.099)	0.723	(0.103)		
311230	0.668	(0.378)	0.512	(0.248)	0.545	(0.365)	0.539	(0.368)	0.532	(0.316)		
311311	1.124	(0.207)	1.020	(0.065)	1.061	(0.121)	1.147	(0.118)	0.662	(0.158)		
311312	0.885	(0.087)	1.081	(0.169)	0.890	(0.075)	0.904	(0.100)	0.718	(0.075)	0.587	(0.185)
311313	1.111	(0.094)	1.041	(0.053)	1.121	(0.097)	1.106	(0.097)	1.047	(0.106)	1.161	(0.702)
311320	0.326	(0.266)	0.130	(0.127)	0.540	(0.086)	0.542	(0.157)	0.402	(0.141)	0.264	(0.836)
311330	0.941	(0.114)	0.618	(0.089)	0.673	(0.075)	0.746	(0.086)	0.626	(0.067)	0.317	(0.485)
311340	1.087	(0.082)	1.018	(0.028)	1.088	(0.074)	1.080	(0.090)	0.812	(0.144)	0.765	(0.080)
311411	0.694	(3.711)	0.03	(1.189)	0.759	(0.112)	0.748	(0.169)	0.576	(0.150)	0.560	(0.405)
311412	1.197	(0.172)	1.078	(0.100)	1.212	(0.175)	1.234	(0.190)	0.917	(0.156)	0.912	(0.128)
311421	2.491	(9.083)			0.669	(0.070)	0.636	(0.081)	0.457	(0.081)		
311422	0.985	(0.133)	1.001	(0.022)	0.982	(0.165)	0.975	(0.231)	0.717	(0.159)		
311423	1.358	(0.145)	1.172	(0.097)	1.354	(0.156)	1.334	(0.163)	1.120	(0.119)	1.211	(0.352)
311511	0.526	(0.756)	0.085	(0.029)	0.380	(0.167)	0.353	(0.157)	0.127	(0.137)		
311512	1.054	(3.249)			0.653	(0.188)	0.654	(0.195)	0.444	(0.210)	0.406	(0.527)
311513	0.259	(0.165)	0.162	(0.103)	0.474	(0.158)	0.482	(0.160)	0.430	(0.134)		
311514	0.907	(0.089)	1.057	(0.168)	0.877	(0.141)	0.866	(0.184)	0.504	(0.155)		
311520	1.146	(0.134)	1.030	(0.047)	1.129	(0.120)	1.111	(0.128)	0.607	(0.140)		
311611	0.796	(0.255)	0.558	(0.168)	0.646	(0.161)	0.65	(0.171)	0.582	(0.187)	0.045	(3.069)
311612	1.116	(0.285)	1.015	(0.063)	1.050	(0.119)	1.079	(0.139)	0.974	(0.165)	0.916	(0.408)
311613	0.520	(0.140)	0.179	(0.087)	0.499	(0.105)	0.505	(0.111)	0.145	(0.120)		
311615	1.449	(17.433)			0.807	(0.146)	0.813	(0.150)	0.686	(0.125)	0.637	(0.423)
311711	0.946	(0.134)	1.014	(0.080)	0.944	(0.136)	0.936	(0.102)	0.830	(0.095)	0.569	(0.393)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
311712	0.736	(1.066)	1.156	(1.336)	0.921	(0.115)	0.911	(0.117)	0.887	(0.084)		
311812	0.836	(0.144)	1.074	(0.166)	0.868	(0.099)	0.833	(0.123)	0.500	(0.096)	0.369	(0.153)
311813	1.287	(0.070)	1.121	(0.041)	1.302	(0.066)	1.349	(0.079)	0.627	(0.180)		
311821			0.250	(1.529)	0.825	(0.119)	0.767	(0.098)	0.675	(0.137)	0.187	(1.154)
311822	0.807	(0.482)	1.256	(2.330)	0.835	(0.372)	0.848	(0.371)	0.623	(0.296)	0.489	(0.676)
311823	1.109	(0.196)	1.023	(0.069)	1.106	(0.187)	1.109	(0.184)	0.743	(0.143)	0.716	(0.106)
311830	1.414	(0.089)	1.157	(0.045)	1.346	(0.067)	1.319	(0.067)	1.297	(0.160)		
311911	0.818	(0.087)	2.105	(5.011)	0.753	(0.127)	0.759	(0.135)	0.407	(0.186)		
311919	1.274	(0.328)	1.094	(0.171)	1.274	(0.328)	1.273	(0.324)	1.142	(0.452)	1.569	(3.980)
311920												
311930	0.838	(0.199)	1.078	(0.259)	0.860	(0.162)	0.934	(0.172)	0.348	(0.084)		
311941	1.275	(0.093)	1.104	(0.051)	1.274	(0.089)	1.273	(0.085)	0.820	(0.224)		
311942	1.411	(0.073)	1.156	(0.038)	1.415	(0.069)	1.413	(0.072)	1.081	(0.341)	1.166	(0.871)
311991	1.352	(0.038)	1.131	(0.017)	1.335	(0.027)	1.325	(0.025)	1.235	(0.131)	2.455	(2.96)
311999	1.323	(0.042)	1.146	(0.022)	1.417	(0.030)	1.440	(0.033)	1.361	(0.223)	3.524	(8.744)
312111	0.696	(0.088)	1.682	(1.361)	0.683	(0.130)	0.717	(0.153)	0.314	(0.088)	0.196	(0.152)
312112	1.050	(0.564)	1.001	(0.028)	1.018	(0.208)	0.824	(0.157)	0.772	(0.225)		
312113	0.809	(0.138)	1.129	(0.293)	0.841	(0.126)	1.019	(0.127)	0.378	(0.229)		
312120	0.853	(0.625)	1.045	(0.410)	0.931	(0.207)	0.861	(0.229)	0.728	(0.129)	0.395	(0.928)
312130	0.777	(0.168)	1.222	(0.560)	0.786	(0.144)	0.774	(0.138)	0.475	(0.098)	0.250	(0.237)
312140	0.915	(0.073)	1.051	(0.123)	0.883	(0.105)	0.868	(0.082)	0.463	(0.181)		
312210	1.099	(0.102)	1.015	(0.028)	1.076	(0.085)	1.058	(0.078)	0.993	(0.129)	0.954	(0.747)
312221	0.970	(0.513)	0.999	(0.037)	1.011	(0.165)	0.876	(0.198)	1.105	(0.170)	0.887	(0.158)
312229	1.200	(0.338)	1.038	(0.124)	1.092	(0.207)	1.136	(0.246)	0.947	(0.180)	0.897	(0.275)
313111	0.999	(0.026)	1.000	(0.000)	0.999	(0.050)	0.952	(0.063)	0.828	(0.101)	0.797	(0.101)
313112	0.818	(0.300)	1.117	(0.369)	0.935	(0.039)	0.944	(0.043)	0.909	(0.031)	0.502	(0.635)
313113	1.231	(0.077)	1.106	(0.053)	1.242	(0.093)	1.242	(0.094)	1.050	(0.118)	1.076	(0.227)
313210	0.995	(0.085)	1.000	(0.002)	0.998	(0.040)	1.040	(0.038)	0.959	(0.042)	0.902	(0.065)
313221	1.078	(0.045)	1.013	(0.013)	1.063	(0.039)	1.048	(0.032)	0.938	(0.055)	0.830	(0.080)
313222	1.517	(0.135)	1.263	(0.082)	1.411	(0.081)	1.395	(0.092)	1.380	(0.066)		
313230	0.938	(0.167)	1.014	(0.088)	0.944	(0.155)	0.934	(0.155)	0.755	(0.172)	0.585	(0.309)
313241	1.288	(0.052)	1.120	(0.029)	1.248	(0.038)	1.259	(0.041)	1.198	(0.031)	2.107	(1.033)

Continued on next page

Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
313249	1.334	(0.094)	1.134	(0.060)	1.246	(0.085)	1.281	(0.091)	1.153	(0.081)	1.419	(0.554)
313311	1.056	(0.055)	1.010	(0.019)	1.067	(0.071)	1.079	(0.070)	0.965	(0.039)	0.907	(0.088)
313312	1.180	(0.071)	1.060	(0.038)	1.164	(0.076)	1.177	(0.072)	1.070	(0.076)	1.214	(0.407)
313320	1.158	(0.057)	1.028	(0.021)	1.099	(0.051)	1.176	(0.044)	0.935	(0.040)	0.877	(0.058)
314110	1.127	(0.116)	1.027	(0.040)	1.090	(0.081)	1.103	(0.089)	1.038	(0.079)	1.194	(0.689)
314121	1.275	(0.110)	1.115	(0.068)	1.293	(0.122)	1.303	(0.130)	1.021	(0.086)	1.031	(0.139)
314129	1.141	(0.039)	1.036	(0.020)	1.117	(0.048)	1.148	(0.045)	0.984	(0.039)	0.967	(0.073)
314911	0.922	(0.050)	1.038	(0.067)	0.898	(0.073)	0.92	(0.082)	0.746	(0.118)	0.544	(0.199)
314912	1.306	(0.114)	1.113	(0.065)	1.280	(0.114)	1.283	(0.108)	1.050	(0.176)	1.101	(0.435)
314991	0.955	(0.233)	1.003	(0.039)	0.976	(0.131)	1.039	(0.119)	0.847	(0.196)	0.703	(0.169)
314992	1.142	(0.115)	1.048	(0.074)	1.118	(0.149)	1.132	(0.119)	1.049	(0.104)	1.136	(0.491)
314999	1.239	(0.100)	1.082	(0.044)	1.198	(0.056)	1.212	(0.053)	1.129	(0.065)	1.586	(0.831)
315111	1.259	(0.071)	1.138	(0.049)	1.302	(0.072)	1.303	(0.079)	1.175	(0.112)	1.374	(0.602)
315119	1.321	(0.091)	1.152	(0.055)	1.254	(0.074)	1.269	(0.070)	1.176	(0.076)	1.515	(0.744)
315191	1.307	(0.065)	1.160	(0.041)	1.367	(0.056)	1.395	(0.060)	1.338	(0.105)	3.148	(5.133)
315192	1.300	(0.064)	1.163	(0.046)	1.334	(0.070)	1.315	(0.078)	1.257	(0.168)	2.249	(4.685)
315221	1.625	(0.061)	1.376	(0.048)	1.504	(0.076)	1.576	(0.069)	1.443	(0.061)	2.078	(0.823)
315222	1.284	(0.091)	1.091	(0.050)	1.159	(0.067)	1.264	(0.076)	1.082	(0.068)	1.149	(0.188)
315223	1.354	(0.054)	1.171	(0.038)	1.312	(0.057)	1.313	(0.052)	1.264	(0.064)	2.751	(3.273)
315224	1.356	(0.044)	1.200	(0.032)	1.399	(0.050)	1.408	(0.063)	1.370	(0.112)	4.201	(11.822)
315225	1.127	(0.048)	1.049	(0.027)	1.176	(0.058)	1.191	(0.064)	1.086	(0.118)	1.244	(0.627)
315228	1.238	(0.063)	1.092	(0.036)	1.205	(0.055)	1.218	(0.052)	1.125	(0.090)	1.426	(0.752)
315231	1.169	(0.023)	1.056	(0.011)	1.212	(0.023)	1.221	(0.028)	0.927	(0.053)	0.89	(0.061)
315232	1.113	(0.103)	1.024	(0.034)	1.112	(0.080)	1.132	(0.058)	1.008	(0.135)	1.026	(0.488)
315233	1.300	(0.088)	1.110	(0.045)	1.282	(0.073)	1.231	(0.063)	0.864	(0.118)	0.829	(0.096)
315234	1.177	(0.100)	1.052	(0.046)	1.200	(0.106)	1.217	(0.074)	0.804	(0.098)	0.763	(0.068)
315239	1.120	(0.047)	1.031	(0.020)	1.139	(0.054)	1.183	(0.039)	0.766	(0.100)	0.759	(0.047)
315291	1.208	(0.043)	1.075	(0.021)	1.206	(0.034)	1.265	(0.076)	0.985	(0.080)	0.979	(0.104)
315292	1.209	(0.104)	1.056	(0.045)	1.146	(0.074)	1.162	(0.075)	1.081	(0.072)	1.382	(0.750)
315299	1.158	(0.060)	1.041	(0.026)	1.127	(0.052)	1.135	(0.066)	0.951	(0.102)	0.904	(0.149)
315991	1.270	(0.125)	1.103	(0.067)	1.227	(0.093)	1.200	(0.099)	1.062	(0.102)	1.158	(0.389)
315992	1.171	(0.086)	1.060	(0.047)	1.168	(0.088)	1.141	(0.083)	0.981	(0.084)	0.964	(0.143)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
315993	1.217	(0.109)	1.057	(0.045)	1.178	(0.086)	1.141	(0.08)	1.083	(0.125)	1.678	(2.633)
315999	1.127	(0.053)	1.034	(0.021)	1.144	(0.049)	1.148	(0.047)	1.054	(0.061)	1.236	(0.432)
316110	1.775	(11.451)	0.905	(0.428)	0.947	(0.167)	0.952	(0.188)	0.946	(0.178)		
316211	1.179	(0.089)	1.064	(0.049)	1.183	(0.091)	1.170	(0.083)	1.011	(0.137)	1.023	(0.299)
316212	1.281	(0.054)	1.122	(0.032)	1.317	(0.054)	1.450	(0.080)	1.166	(0.311)	1.272	(0.809)
316213	1.278	(0.061)	1.097	(0.038)	1.180	(0.069)	1.217	(0.075)	1.090	(0.050)	1.228	(0.248)
316214	1.399	(0.123)	1.187	(0.077)	1.315	(0.092)	1.246	(0.067)	1.224	(0.128)	4.185	(22.127)
316219	1.468	(0.118)	1.286	(0.091)	1.598	(0.157)	1.649	(0.205)	1.264	(0.185)	1.294	(0.367)
316991	1.174	(0.143)	1.045	(0.062)	1.160	(0.143)	1.147	(0.129)	0.981	(0.065)	0.947	(0.160)
316992	1.380	(0.137)	1.168	(0.083)	1.372	(0.129)	1.497	(0.061)	0.804	(0.194)		
316993	1.164	(0.181)	1.052	(0.088)	1.219	(0.228)	1.271	(0.229)	0.516	(0.118)		
316999	1.316	(0.062)	1.121	(0.034)	1.279	(0.053)	1.302	(0.059)	1.062	(0.078)	1.115	(0.183)
321113	0.907	(0.066)	1.144	(0.475)	0.896	(0.098)	0.905	(0.095)	0.818	(0.105)	0.645	(0.412)
321114	1.023	(0.075)	1.002	(0.010)	1.021	(0.072)	1.032	(0.071)	0.655	(0.084)		
321211	1.087	(0.101)	1.017	(0.034)	1.057	(0.066)	1.048	(0.054)	1.025	(0.076)	1.241	(1.611)
321212	1.102	(0.049)	1.040	(0.026)	1.105	(0.035)	1.116	(0.045)	0.963	(0.111)	0.960	(0.091)
321213	1.237	(0.046)	1.075	(0.024)	1.208	(0.047)	1.224	(0.050)	0.900	(0.092)	0.863	(0.089)
321214	1.168	(0.026)	1.046	(0.010)	1.169	(0.021)	1.166	(0.027)	0.986	(0.053)	0.965	(0.121)
321219	1.041	(0.102)	1.004	(0.018)	1.030	(0.072)	1.070	(0.095)	0.913	(0.098)	0.846	(0.111)
321911	1.291	(0.071)	1.107	(0.039)	1.214	(0.059)	1.235	(0.050)	1.131	(0.050)	1.451	(0.438)
321912	1.001	(0.044)	1.000	(0.000)	1.001	(0.046)	1.008	(0.047)	0.891	(0.056)	0.800	(0.071)
321918	1.236	(0.059)	1.083	(0.029)	1.181	(0.053)	1.204	(0.042)	1.119	(0.055)	1.452	(0.541)
321920	1.188	(0.420)	0.866	(0.067)	0.874	(0.142)	0.973	(0.152)	0.869	(0.086)	0.685	(0.416)
321991	1.278	(0.027)	1.103	(0.012)	1.220	(0.018)	1.247	(0.019)	1.154	(0.029)	1.598	(0.321)
321992	1.179	(0.029)	1.041	(0.009)	1.144	(0.017)	1.165	(0.024)	1.028	(0.031)	1.098	(0.133)
321999	0.963	(0.121)	1.004	(0.032)	0.971	(0.097)	0.964	(0.096)	0.871	(0.099)	0.629	(0.362)
322110	0.934	(0.167)	1.008	(0.037)	0.974	(0.049)	0.967	(0.046)	0.958	(0.049)		
322121			1.530	(2.527)	1.129	(0.100)	1.140	(0.158)	1.156	(0.130)		
322122	0.813	(0.498)	1.118	(0.693)	0.922	(0.175)	0.929	(0.192)	0.888	(0.215)	0.365	(3.565)
322130	1.037	(0.063)	0.994	(0.023)	0.964	(0.075)	1.042	(0.112)	1.030	(0.102)	1.624	(9.011)
322211	0.870	(0.131)	1.073	(0.189)	0.885	(0.100)	0.888	(0.112)	0.745	(0.086)	0.419	(0.411)
322212	1.060	(0.120)	1.009	(0.032)	1.057	(0.116)	1.059	(0.116)	0.880	(0.117)	0.781	(0.137)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
322213	1.026	(0.042)	1.004	(0.012)	1.061	(0.096)	0.765	(0.155)	0.345	(0.180)		
322214	1.192	(0.066)	1.069	(0.037)	1.184	(0.064)	1.184	(0.076)	0.832	(0.156)		
322215	0.986	(0.100)	1.001	(0.009)	0.989	(0.080)	0.978	(0.081)	0.424	(0.152)		
322221	1.076	(0.054)	1.011	(0.015)	1.063	(0.053)	1.082	(0.040)	0.878	(0.039)	0.765	(0.048)
322222	1.367	(0.105)	1.141	(0.059)	1.331	(0.104)	1.337	(0.101)	1.169	(0.135)	1.528	(0.890)
322223	1.150	(0.115)	1.048	(0.058)	1.174	(0.133)	1.155	(0.123)	0.839	(0.084)	0.810	(0.072)
322224	1.030	(0.114)	1.003	(0.019)	1.025	(0.101)	1.033	(0.104)	0.933	(0.080)	0.821	(0.182)
322225	1.205	(0.037)	1.068	(0.020)	1.202	(0.046)	1.196	(0.040)	1.026	(0.045)	1.061	(0.122)
322226	1.112	(0.117)	1.025	(0.046)	1.110	(0.121)	1.106	(0.118)	0.845	(0.073)	0.780	(0.087)
322231	1.253	(0.069)	1.092	(0.039)	1.241	(0.073)	1.238	(0.077)	1.014	(0.112)	1.025	(0.219)
322232	1.197	(0.061)	1.057	(0.027)	1.157	(0.044)	1.162	(0.054)	1.016	(0.044)	1.042	(0.127)
322233	1.057	(0.081)	1.009	(0.025)	1.072	(0.112)	1.077	(0.111)	0.986	(0.107)	0.941	(0.378)
322291	1.269	(0.053)	1.147	(0.035)	1.387	(0.067)	1.330	(0.066)	1.195	(0.107)	1.485	(0.685)
322299	1.437	(0.048)	1.200	(0.031)	1.423	(0.052)	1.425	(0.052)	1.344	(0.067)	3.104	(2.485)
323110	1.690	(0.170)	1.236	(0.046)	1.300	(0.034)	1.347	(0.046)	1.285	(0.031)	3.09	(1.938)
323111	1.121	(0.042)	1.036	(0.020)	1.123	(0.041)	1.152	(0.058)	0.486	(0.166)		
323112	1.337	(0.044)	1.153	(0.027)	1.397	(0.046)	1.410	(0.033)	0.932	(0.160)	0.928	(0.144)
323113	1.078	(0.089)	1.017	(0.031)	1.098	(0.102)	1.100	(0.089)	0.777	(0.145)	0.744	(0.072)
323114	1.083	(0.136)	1.018	(0.049)	1.104	(0.160)	1.103	(0.174)	1.057	(0.191)	1.466	(3.896)
323115	1.317	(0.079)	1.143	(0.050)	1.381	(0.096)	1.381	(0.047)	1.306	(0.076)	2.978	(2.744)
323116	1.455	(0.093)	1.181	(0.047)	1.335	(0.059)	1.350	(0.078)	1.235	(0.049)	1.965	(0.861)
323117	1.105	(0.072)	1.027	(0.032)	1.112	(0.080)	1.119	(0.075)	0.837	(0.128)	0.810	(0.074)
323118	1.398	(0.078)	1.169	(0.045)	1.377	(0.070)	1.241	(0.047)	1.020	(0.166)	1.041	(0.370)
323119	1.000	(0.054)	1.000	(0.000)	1.001	(0.078)	1.007	(0.076)	0.838	(0.112)	0.659	(0.129)
323121	0.825	(0.313)	1.259	(1.574)	0.865	(0.185)	0.874	(0.193)	0.783	(0.148)	0.429	(1.219)
323122	0.970	(0.023)	1.004	(0.007)	0.964	(0.033)	0.990	(0.034)	0.839	(0.079)	0.653	(0.067)
324110	0.673	(0.118)	0.412	(0.092)	0.438	(0.050)	0.444	(0.047)	0.430	(0.057)		
324121	1.045	(0.115)	1.004	(0.020)	1.036	(0.096)	1.055	(0.093)	0.843	(0.094)	0.739	(0.100)
324122			1.146	(0.954)	1.041	(0.099)	1.041	(0.093)	1.059	(0.107)		
324191	1.075	(0.121)	1.010	(0.029)	1.095	(0.152)	0.995	(0.154)	0.619	(0.129)	0.424	(0.146)
324199	1.102	(0.181)	0.798	(0.104)	0.787	(0.109)	0.790	(0.144)	0.791	(0.097)		
325110	0.785	(1.156)	1.027	(0.291)	0.962	(0.124)	1.233	(0.181)	0.880	(0.081)	0.818	(0.105)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
325120	1.445	(0.186)	1.183	(0.097)	1.460	(0.146)	1.475	(0.203)	0.572	(0.212)		
325131	1.067	(0.277)	1.006	(0.046)	1.040	(0.177)	1.076	(0.177)	0.886	(0.149)	0.744	(0.239)
325132	0.861	(0.147)	3.129	(9.952)	0.649	(0.174)	0.673	(0.152)	0.518	(0.160)	0.089	(0.937)
325181	2.330	(0.324)	1.670	(0.155)	1.838	(0.167)	1.932	(0.187)	1.716	(0.152)	3.265	(2.700)
325182	1.337	(0.190)	1.147	(0.105)	1.308	(0.133)	1.292	(0.136)	1.086	(0.189)	1.162	(0.513)
325188	1.561	(0.090)	1.235	(0.049)	1.554	(0.082)	1.583	(0.101)	0.759	(0.181)		
325191	1.251	(0.321)	1.098	(0.180)	1.265	(0.310)	1.306	(0.331)	0.656	(0.348)		
325192	0.872	(0.182)	1.056	(0.192)	0.886	(0.137)	0.887	(0.139)	0.768	(0.104)	0.256	(0.817)
325193	1.126	(0.196)	1.027	(0.074)	1.135	(0.225)	1.126	(0.139)	0.637	(0.175)		
325199	1.767	(0.356)	1.174	(0.082)	1.230	(0.179)	1.274	(0.149)	1.204	(0.123)	2.636	(5.040)
325211	1.547	(1.215)	1.080	(0.172)	1.113	(0.145)	1.141	(0.186)	1.103	(0.156)	2.332	(9.940)
325212	1.059	(0.107)	1.007	(0.022)	1.055	(0.091)	1.057	(0.098)	0.902	(0.098)	0.734	(0.173)
325221	1.339	(0.126)	1.119	(0.063)	1.225	(0.083)	1.175	(0.133)	1.165	(0.094)		
325222	1.140	(0.197)	1.026	(0.069)	1.087	(0.158)	1.135	(0.143)	0.982	(0.108)	0.955	(0.245)
325311	0.980	(0.357)	1.001	(0.020)	0.989	(0.181)	0.987	(0.189)	0.882	(0.119)	0.557	(0.708)
325312	1.107	(0.209)	1.026	(0.090)	1.118	(0.267)	1.110	(0.238)	0.884	(0.134)	0.808	(0.194)
325314	1.821	(0.448)	1.444	(0.312)	2.034	(0.606)	1.920	(0.606)	1.139	(0.505)	1.165	(0.710)
325320	0.973	(0.197)	1.001	(0.019)	0.977	(0.161)	0.999	(0.160)	0.632	(0.124)	0.484	(0.143)
325411	1.511	(0.135)	1.173	(0.062)	1.400	(0.093)	1.339	(0.135)	0.953	(0.070)	0.915	(0.112)
325412	0.896	(0.350)	1.021	(0.168)	0.907	(0.327)	0.821	(0.201)	0.242	(0.175)		
325413	1.471	(0.098)	1.153	(0.040)	1.464	(0.073)	1.470	(0.091)	1.013	(0.107)	1.028	(0.233)
325414	1.255	(0.163)	1.072	(0.066)	1.301	(0.157)	1.391	(0.116)	0.640	(0.313)	0.594	(0.186)
325510	1.172	(0.163)	1.036	(0.057)	1.172	(0.166)	1.173	(0.133)	0.782	(0.146)	0.632	(0.138)
325520	1.252	(0.161)	1.078	(0.074)	1.292	(0.166)	1.328	(0.154)	0.648	(0.157)	0.646	(0.086)
325611	0.674	(0.419)	0.401	(0.221)	0.337	(0.323)	0.149	(0.450)	0.450	(0.156)	1.123	(0.562)
325612	0.826	(0.271)	1.160	(0.932)	0.796	(0.386)	0.789	(0.400)	0.079	(0.198)		
325613	1.494	(0.217)	1.154	(0.103)	1.378	(0.189)	1.441	(0.241)	0.955	(0.176)	0.925	(0.267)
325620	1.399	(0.313)	1.127	(0.149)	1.341	(0.272)	1.297	(0.302)	0.762	(0.248)	0.698	(0.202)
325910	1.069	(0.137)	1.009	(0.031)	1.078	(0.145)	1.082	(0.144)	0.730	(0.178)	0.589	(0.130)
325920	1.200	(0.045)	1.051	(0.022)	1.165	(0.060)	1.176	(0.043)	0.998	(0.069)	0.994	(0.178)
325991	1.209	(0.094)	1.066	(0.044)	1.203	(0.081)	1.193	(0.063)	0.934	(0.098)	0.890	(0.123)
325992	0.983	(0.100)	1.000	(0.006)	0.986	(0.084)	0.982	(0.100)	0.758	(0.182)	0.433	(0.198)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
325998	1.046	(0.236)	1.003	(0.026)	1.032	(0.166)	1.093	(0.179)	0.746	(0.127)	0.598	(0.152)
326111	0.995	(0.060)	1.000	(0.003)	0.993	(0.075)	0.974	(0.071)	0.791	(0.047)	0.656	(0.109)
326112	1.136	(0.106)	1.027	(0.037)	1.094	(0.081)	1.120	(0.069)	1.003	(0.095)	1.009	(0.319)
326113	1.469	(0.078)	1.153	(0.025)	1.263	(0.054)	1.345	(0.038)	1.198	(0.030)	1.673	(0.287)
326121	1.317	(0.063)	1.108	(0.028)	1.261	(0.063)	1.307	(0.037)	1.092	(0.041)	1.214	(0.138)
326122	1.194	(0.165)	1.051	(0.066)	1.142	(0.118)	1.162	(0.126)	1.064	(0.138)	1.259	(0.974)
326130	1.438	(0.057)	1.190	(0.030)	1.364	(0.037)	1.409	(0.040)	1.208	(0.039)	1.481	(0.201)
326140	1.173	(0.118)	1.042	(0.047)	1.122	(0.083)	1.154	(0.103)	1.012	(0.094)	1.032	(0.272)
326150	1.348	(0.058)	1.092	(0.015)	1.168	(0.026)	1.231	(0.037)	1.119	(0.028)	1.452	(0.257)
326160	1.186	(0.103)	1.070	(0.055)	1.162	(0.076)	1.176	(0.097)	1.055	(0.078)	1.120	(0.261)
326191	1.372	(0.100)	1.178	(0.059)	1.433	(0.090)	1.389	(0.095)	1.022	(0.131)	1.029	(0.180)
326192	1.327	(0.062)	1.149	(0.037)	1.323	(0.053)	1.332	(0.071)	1.036	(0.074)	1.048	(0.109)
326199	1.481	(0.109)	1.142	(0.020)	1.216	(0.061)	1.340	(0.046)	1.172	(0.029)	1.476	(0.200)
326211	1.022	(0.107)	1.001	(0.011)	1.013	(0.067)	1.086	(0.065)	0.920	(0.054)	0.875	(0.060)
326220	1.264	(0.090)	1.089	(0.046)	1.222	(0.076)	1.237	(0.085)	1.001	(0.084)	1.002	(0.151)
326291	1.181	(0.076)	1.038	(0.040)	1.104	(0.091)	1.239	(0.049)	0.976	(0.030)	0.963	(0.042)
326299	1.253	(0.082)	1.092	(0.046)	1.255	(0.090)	1.247	(0.083)	0.950	(0.075)	0.924	(0.094)
327111			3.612	(57.199)	1.166	(0.124)	1.358	(0.126)	1.261	(0.111)	1.750	(1.488)
327112	1.376	(0.133)	1.153	(0.078)	1.271	(0.100)	1.194	(0.086)	1.220	(0.092)		
327113	1.617	(0.081)	1.291	(0.047)	1.461	(0.053)	1.457	(0.074)	1.290	(0.097)	1.812	(0.815)
327121	1.267	(0.044)	1.100	(0.024)	1.204	(0.047)	1.250	(0.033)	1.094	(0.053)	1.200	(0.185)
327122	1.009	(0.137)	1.000	(0.008)	1.009	(0.129)	1.024	(0.117)	0.696	(0.080)		
327123	1.190	(0.138)	1.055	(0.073)	1.138	(0.135)	1.181	(0.138)	1.015	(0.080)	1.030	(0.176)
327124	1.545	(0.086)	1.286	(0.061)	1.528	(0.091)	1.520	(0.093)	1.241	(0.117)	1.408	(0.386)
327125	1.749	(0.121)	1.361	(0.069)	1.556	(0.097)	1.594	(0.110)	1.391	(0.099)	2.048	(0.919)
327211	0.534	(1.113)	0.743	(0.928)	1.141	(0.093)	1.436	(0.094)	1.318	(0.058)	1.833	(0.829)
327212	1.234	(0.148)	1.094	(0.090)	1.184	(0.123)	1.248	(0.124)	0.951	(0.137)		
327213	0.673	(1.662)			0.861	(0.096)	0.857	(0.094)	0.828	(0.091)	0.173	(3.409)
327215	1.155	(0.067)	1.036	(0.032)	1.107	(0.071)	1.150	(0.049)	0.989	(0.038)	0.976	(0.078)
327310	1.479	(0.235)	1.191	(0.130)	1.267	(0.144)	1.364	(0.138)	1.204	(0.152)	1.472	(0.88)
327320	1.351	(0.089)	1.152	(0.040)	1.324	(0.037)	1.310	(0.034)	1.273	(0.066)	4.093	(6.934)
327331	1.213	(0.043)	1.062	(0.019)	1.223	(0.045)	1.215	(0.044)	0.903	(0.071)	0.830	(0.088)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
327332	1.437	(0.084)	1.180	(0.056)	1.336	(0.104)	1.352	(0.097)	1.039	(0.101)	1.057	(0.165)
327390	1.400	(0.092)	1.181	(0.057)	1.385	(0.089)	1.404	(0.094)	1.162	(0.102)	1.312	(0.344)
327410	1.171	(0.153)	1.056	(0.078)	1.147	(0.128)	1.139	(0.102)	0.982	(0.138)	0.967	(0.228)
327420	1.377	(0.089)	1.128	(0.049)	1.178	(0.073)	1.298	(0.069)	1.135	(0.055)	1.270	(0.226)
327910	1.700	(0.118)	1.321	(0.072)	1.637	(0.110)	1.644	(0.114)	1.198	(0.116)	1.324	(0.280)
327991	1.357	(0.074)	1.181	(0.042)	1.371	(0.045)	1.381	(0.042)	1.288	(0.059)	2.132	(1.056)
327992	1.125	(0.320)	1.033	(0.136)	1.130	(0.313)	1.149	(0.325)	0.796	(0.285)	0.787	(0.185)
327993	1.545	(0.115)	1.309	(0.075)	1.477	(0.084)	1.509	(0.090)	1.306	(0.107)	1.535	(0.514)
327999	0.102	(8.406)			0.846	(0.190)	0.925	(0.188)	0.78	(0.138)	0.526	(0.541)
331111	0.868	(0.489)	0.974	(0.140)	1.050	(0.082)	1.277	(0.065)	1.129	(0.042)	1.268	(0.193)
331112	1.156	(0.126)	1.033	(0.034)	1.091	(0.042)	1.155	(0.088)	1.004	(0.09)	1.009	(0.204)
331210	1.327	(0.106)	1.148	(0.056)	1.316	(0.061)	1.321	(0.089)	1.174	(0.096)	1.452	(0.593)
331221	1.263	(0.091)	1.074	(0.046)	1.150	(0.073)	1.231	(0.084)	1.078	(0.052)	1.190	(0.210)
331222	1.436	(0.132)	1.191	(0.069)	1.333	(0.083)	1.391	(0.106)	1.202	(0.079)	1.439	(0.412)
331311	1.242	(0.446)	0.782	(0.078)	0.734	(0.174)	0.919	(0.095)	0.764	(0.079)	0.370	(0.338)
331312	1.133	(0.123)	0.931	(0.095)	0.901	(0.101)	1.060	(0.147)	0.927	(0.111)	0.851	(0.178)
331314	0.801	(0.184)	1.625	(2.005)	0.775	(0.076)	0.773	(0.055)	0.673	(0.032)	0.066	(0.490)
331315	1.038	(0.092)	0.863	(0.072)	0.775	(0.121)	0.985	(0.152)	0.860	(0.109)	0.695	(0.323)
331316	1.148	(0.118)	1.035	(0.050)	1.105	(0.099)	1.160	(0.090)	1.000	(0.089)	1.001	(0.191)
331319	1.223	(0.044)	1.078	(0.024)	1.198	(0.044)	1.202	(0.034)	1.114	(0.045)	1.468	(0.455)
331411	1.034	(0.042)	1.004	(0.009)	1.033	(0.040)	1.049	(0.042)	0.929	(0.063)	0.850	(0.072)
331419	0.708	(0.329)			0.738	(0.173)	0.743	(0.167)	0.642	(0.160)	0.037	(1.779)
331421	1.037	(0.113)	1.003	(0.017)	1.024	(0.085)	1.084	(0.052)	0.918	(0.032)	0.847	(0.051)
331422	1.012	(0.102)	1.000	(0.006)	1.010	(0.087)	1.027	(0.070)	0.901	(0.044)	0.734	(0.133)
331423	0.825	(0.022)	2.662	(4.423)	0.705	(0.084)	0.686	(0.090)	0.328	(0.185)		
331491	0.983	(0.137)	1.000	(0.006)	0.992	(0.060)	1.056	(0.050)	0.916	(0.043)	0.765	(0.088)
331492	0.901	(0.068)	1.054	(0.095)	0.877	(0.078)	0.870	(0.072)	0.762	(0.072)	0.267	(0.505)
331511	1.030	(0.005)	0.986	(0.020)	0.926	(0.068)	1.269	(0.033)	1.125	(0.023)	1.25	(0.101)
331512	1.456	(0.073)	1.231	(0.051)	1.424	(0.076)	1.444	(0.067)	1.181	(0.051)	1.281	(0.145)
331513	1.461	(0.040)	1.251	(0.035)	1.453	(0.080)	1.473	(0.032)	1.180	(0.060)	1.235	(0.129)
331521	1.517	(0.687)	1.115	(0.071)	1.106	(0.085)	1.334	(0.050)	1.113	(0.049)	1.165	(0.112)
331522	1.209	(0.084)	1.083	(0.044)	1.228	(0.069)	1.229	(0.076)	1.025	(0.105)	1.044	(0.205)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
331524	1.407	(0.101)	1.191	(0.053)	1.319	(0.101)	1.382	(0.087)	1.195	(0.078)	1.368	(0.336)
331525	1.051	(0.070)	1.008	(0.020)	1.057	(0.080)	1.056	(0.074)	0.841	(0.083)	0.775	(0.069)
331528	1.310	(0.166)	1.089	(0.075)	1.178	(0.111)	1.248	(0.108)	1.086	(0.109)	1.224	(0.454)
332111	1.473	(0.136)	1.184	(0.049)	1.28	(0.048)	1.358	(0.047)	1.205	(0.055)	1.546	(0.374)
332112	1.186	(0.159)	1.053	(0.068)	1.153	(0.116)	1.155	(0.103)	0.977	(0.132)	0.951	(0.242)
332114	1.289	(0.124)	1.089	(0.056)	1.227	(0.089)	1.138	(0.105)	1.066	(0.108)	1.419	(1.432)
332115	1.359	(0.146)	1.155	(0.089)	1.300	(0.124)	1.315	(0.123)	1.115	(0.187)	1.218	(0.571)
332116	1.645	(0.168)	1.249	(0.096)	1.337	(0.126)	1.443	(0.100)	1.287	(0.119)	1.870	(1.137)
332117	1.627	(0.201)	1.189	(0.115)	1.247	(0.140)	1.199	(0.125)	1.221	(0.128)		
332211	1.180	(0.156)	1.062	(0.078)	1.206	(0.151)	1.194	(0.157)	0.785	(0.233)		
332212	1.445	(0.113)	1.168	(0.059)	1.316	(0.091)	1.364	(0.077)	1.184	(0.084)	1.500	(0.495)
332213	1.208	(0.120)	1.053	(0.051)	1.156	(0.100)	1.180	(0.099)	0.911	(0.114)	0.852	(0.134)
332214	1.456	(0.210)	1.203	(0.105)	1.383	(0.116)	1.433	(0.130)	1.221	(0.168)	1.493	(0.806)
332311	1.238	(0.117)	1.068	(0.049)	1.206	(0.087)	1.194	(0.099)	0.921	(0.139)	0.857	(0.182)
332312	1.027	(0.132)	1.001	(0.010)	1.015	(0.081)	1.051	(0.069)	0.942	(0.051)	0.793	(0.146)
332313	1.252	(0.091)	1.058	(0.049)	1.136	(0.101)	1.188	(0.098)	1.013	(0.053)	1.033	(0.142)
332321	1.310	(0.053)	1.095	(0.023)	1.229	(0.039)	1.257	(0.042)	1.074	(0.056)	1.199	(0.216)
332322	1.365	(0.083)	1.120	(0.044)	1.239	(0.070)	1.278	(0.073)	1.151	(0.069)	1.546	(0.612)
332323	1.275	(0.119)	1.086	(0.051)	1.216	(0.072)	1.220	(0.092)	1.107	(0.112)	1.437	(0.947)
332410	1.264	(0.122)	1.087	(0.062)	1.238	(0.112)	1.262	(0.112)	1.002	(0.081)	1.004	(0.150)
332420	1.383	(0.050)	1.148	(0.032)	1.315	(0.068)	1.372	(0.044)	1.097	(0.048)	1.174	(0.119)
332431	0.490	(0.317)	0.403	(0.255)	0.332	(0.328)	0.376	(0.321)	0.396	(0.241)	3.358	(51.144)
332439	1.211	(0.093)	1.074	(0.049)	1.207	(0.087)	1.214	(0.096)	0.847	(0.177)	0.841	(0.111)
332510	1.390	(0.034)	1.117	(0.032)	1.206	(0.069)	1.420	(0.029)	1.090	(0.017)	1.133	(0.034)
332611	1.163	(0.068)	1.041	(0.030)	1.127	(0.062)	1.176	(0.054)	0.918	(0.072)	0.879	(0.075)
332612	1.384	(0.099)	1.177	(0.065)	1.35	(0.099)	1.360	(0.105)	1.020	(0.114)	1.024	(0.143)
332618	1.209	(0.065)	1.069	(0.036)	1.205	(0.082)	1.206	(0.050)	1.006	(0.086)	1.013	(0.185)
332710	1.501	(0.326)	1.162	(0.070)	1.212	(0.067)	1.295	(0.067)	1.186	(0.048)	1.654	(0.591)
332721	1.650	(0.051)	1.342	(0.044)	1.527	(0.094)	1.566	(0.055)	1.406	(0.083)	2.136	(0.893)
332722	1.583	(0.078)	1.262	(0.055)	1.436	(0.094)	1.545	(0.069)	1.254	(0.064)	1.455	(0.231)
332811	1.531	(0.237)	1.201	(0.102)	1.316	(0.117)	1.342	(0.120)	1.248	(0.110)	2.203	(2.416)
332812	1.036	(0.747)	0.999	(0.048)	0.991	(0.229)	0.960	(0.292)	1.013	(0.210)	0.928	(1.000)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
332813	1.482	(0.203)	1.224	(0.119)	1.404	(0.140)	1.417	(0.133)	1.249	(0.158)	1.661	(1.134)
332911	1.387	(0.097)	1.133	(0.050)	1.319	(0.085)	1.358	(0.078)	1.085	(0.068)	1.184	(0.197)
332912	1.608	(0.170)	1.228	(0.091)	1.386	(0.125)	1.400	(0.111)	1.261	(0.118)	2.045	(1.55)
332913	1.279	(0.105)	1.109	(0.062)	1.287	(0.114)	1.274	(0.103)	0.820	(0.183)		
332919	1.334	(0.094)	1.137	(0.059)	1.338	(0.113)	1.340	(0.107)	1.054	(0.055)	1.093	(0.115)
332991	1.355	(0.042)	1.182	(0.034)	1.361	(0.066)	1.370	(0.036)	1.099	(0.039)	1.127	(0.070)
332992	1.009	(0.185)	1.000	(0.010)	1.008	(0.169)	1.034	(0.171)	0.801	(0.193)	0.734	(0.156)
332993	1.265	(0.102)	1.079	(0.042)	1.279	(0.086)	1.245	(0.071)	1.025	(0.106)	1.074	(0.349)
332994	1.339	(0.170)	1.114	(0.086)	1.242	(0.125)	1.239	(0.096)	1.061	(0.161)	1.153	(0.547)
332995	1.100	(0.175)	1.006	(0.022)	1.044	(0.088)	1.045	(0.103)	0.930	(0.073)	0.624	(0.336)
332996	1.374	(0.145)	1.137	(0.081)	1.271	(0.120)	1.275	(0.128)	1.176	(0.122)	1.776	(1.762)
332997	1.413	(0.077)	1.223	(0.055)	1.38	(0.078)	1.415	(0.065)	1.126	(0.146)	1.141	(0.237)
332998	1.412	(0.115)	1.188	(0.067)	1.364	(0.084)	1.354	(0.082)	1.117	(0.096)	1.208	(0.260)
332999	1.747	(0.563)	1.178	(0.115)	1.195	(0.103)	1.210	(0.093)	1.190	(0.098)		
333111	1.408	(0.064)	1.147	(0.037)	1.285	(0.056)	1.415	(0.059)	1.119	(0.039)	1.204	(0.099)
333112	1.215	(0.040)	1.071	(0.023)	1.201	(0.048)	1.222	(0.041)	0.992	(0.046)	0.985	(0.078)
333120	1.066	(0.380)	1.003	(0.038)	1.019	(0.149)	1.283	(0.078)	0.943	(0.039)	0.918	(0.049)
333131	1.237	(0.077)	1.065	(0.033)	1.210	(0.065)	1.248	(0.070)	0.981	(0.063)	0.960	(0.122)
333132	1.328	(0.051)	1.093	(0.031)	1.235	(0.079)	1.296	(0.069)	1.087	(0.035)	1.240	(0.152)
333210	1.427	(0.100)	1.169	(0.056)	1.413	(0.096)	1.408	(0.097)	1.139	(0.141)	1.323	(0.505)
333220	1.340	(0.039)	1.103	(0.021)	1.29	(0.055)	1.318	(0.039)	1.118	(0.029)	1.391	(0.168)
333291	0.801	(0.198)	1.061	(0.133)	0.906	(0.063)	0.998	(0.073)	0.776	(0.047)	0.499	(0.129)
333292	1.345	(0.069)	1.116	(0.037)	1.304	(0.071)	1.328	(0.052)	0.881	(0.139)	0.842	(0.135)
333293	1.178	(0.066)	1.045	(0.028)	1.203	(0.080)	1.206	(0.078)	0.804	(0.054)	0.696	(0.058)
333294	1.234	(0.069)	1.053	(0.027)	1.176	(0.058)	1.266	(0.042)	0.911	(0.067)	0.846	(0.088)
333295	1.591	(0.097)	1.215	(0.045)	1.534	(0.075)	1.559	(0.104)	1.279	(0.067)	1.907	(0.516)
333298	1.533	(0.130)	1.222	(0.077)	1.549	(0.150)	1.551	(0.110)	1.303	(0.147)	1.954	(1.091)
333311	1.367	(0.055)	1.127	(0.027)	1.325	(0.046)	1.356	(0.052)	0.865	(0.090)	0.832	(0.082)
333312	1.053	(0.074)	1.006	(0.015)	1.055	(0.075)	1.053	(0.064)	0.542	(0.189)		
333313	1.097	(0.147)	1.012	(0.032)	1.095	(0.138)	1.078	(0.141)	0.592	(0.131)	0.441	(0.094)
333314	1.284	(0.081)	1.081	(0.031)	1.26	(0.052)	1.369	(0.032)	1.231	(0.316)	2.162	(4.259)
333315	1.711	(0.393)	1.232	(0.177)	1.446	(0.251)	1.435	(0.238)	1.348	(0.253)	4.086	(13.704)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
333319	1.273	(0.087)	1.067	(0.037)	1.225	(0.085)	1.232	(0.086)	0.939	(0.065)	0.861	(0.121)
333411	1.068	(0.150)	1.007	(0.028)	1.054	(0.116)	1.049	(0.114)	0.711	(0.132)	0.610	(0.093)
333412	1.076	(0.104)	1.008	(0.021)	1.058	(0.078)	1.077	(0.082)	0.796	(0.101)	0.664	(0.085)
333414	1.388	(0.145)	1.151	(0.084)	1.402	(0.162)	1.402	(0.171)	1.000	(0.116)	1.000	(0.184)
333415	1.269	(0.096)	1.052	(0.039)	1.110	(0.079)	1.249	(0.068)	1.039	(0.045)	1.083	(0.117)
333511	1.503	(0.159)	1.221	(0.081)	1.319	(0.083)	1.366	(0.092)	1.279	(0.085)	2.180	(1.904)
333512	1.355	(0.064)	1.126	(0.039)	1.355	(0.088)	1.342	(0.074)	1.067	(0.063)	1.158	(0.186)
333513	1.377	(0.126)	1.085	(0.037)	1.162	(0.050)	1.284	(0.054)	1.097	(0.047)	1.270	(0.211)
333514	1.547	(0.131)	1.280	(0.079)	1.451	(0.106)	1.463	(0.082)	1.394	(0.089)	3.297	(4.320)
333515	1.723	(0.130)	1.334	(0.087)	1.541	(0.134)	1.628	(0.119)	1.382	(0.111)	1.930	(0.790)
333516	1.331	(0.103)	1.113	(0.051)	1.312	(0.095)	1.316	(0.112)	0.998	(0.124)	0.997	(0.230)
333518	1.299	(0.108)	1.082	(0.030)	1.216	(0.041)	1.217	(0.057)	1.116	(0.085)	1.614	(1.021)
333611	1.478	(0.319)	1.145	(0.129)	1.307	(0.167)	1.316	(0.180)	1.187	(0.196)	1.910	(2.593)
333612	1.486	(0.107)	1.202	(0.068)	1.396	(0.117)	1.498	(0.090)	1.118	(0.089)	1.175	(0.176)
333613	1.464	(0.096)	1.183	(0.054)	1.357	(0.077)	1.417	(0.087)	1.158	(0.085)	1.326	(0.297)
333618	1.281	(0.081)	1.095	(0.039)	1.232	(0.065)	1.316	(0.079)	1.008	(0.072)	1.013	(0.112)
333911	1.312	(0.092)	1.075	(0.041)	1.210	(0.086)	1.369	(0.094)	0.954	(0.039)	0.924	(0.058)
333912	1.059	(0.180)	1.003	(0.016)	1.025	(0.084)	1.182	(0.095)	0.862	(0.063)	0.741	(0.087)
333913	1.132	(0.203)	1.016	(0.045)	1.077	(0.130)	1.123	(0.153)	0.818	(0.069)	0.661	(0.135)
333921	1.286	(0.127)	1.091	(0.057)	1.280	(0.105)	1.272	(0.123)	0.845	(0.139)	0.784	(0.130)
333922	1.228	(0.056)	1.055	(0.024)	1.205	(0.060)	1.234	(0.039)	0.805	(0.077)	0.709	(0.065)
333923	1.302	(0.074)	1.100	(0.042)	1.265	(0.084)	1.309	(0.067)	1.001	(0.061)	1.002	(0.107)
333924	1.262	(0.044)	1.074	(0.022)	1.222	(0.049)	1.268	(0.038)	0.969	(0.036)	0.941	(0.060)
333991	1.509	(0.060)	1.236	(0.039)	1.523	(0.096)	1.514	(0.063)	1.160	(0.075)	1.275	(0.191)
333992	1.145	(0.097)	1.023	(0.027)	1.102	(0.070)	1.161	(0.087)	0.870	(0.076)	0.759	(0.095)
333993	1.259	(0.096)	1.070	(0.038)	1.235	(0.078)	1.235	(0.074)	0.917	(0.103)	0.838	(0.153)
333994	1.360	(0.059)	1.107	(0.027)	1.308	(0.055)	1.328	(0.041)	0.891	(0.069)	0.823	(0.085)
333995	1.296	(0.162)	1.076	(0.060)	1.191	(0.093)	1.284	(0.133)	1.029	(0.106)	1.062	(0.255)
333996	1.424	(0.058)	1.162	(0.028)	1.361	(0.056)	1.404	(0.059)	1.097	(0.076)	1.182	(0.190)
333997	1.255	(0.121)	1.071	(0.052)	1.25	(0.112)	1.300	(0.107)	0.776	(0.163)	0.715	(0.123)
333999	1.264	(0.121)	1.067	(0.049)	1.218	(0.105)	1.225	(0.110)	0.967	(0.120)	0.919	(0.255)
334111	1.586	(0.170)	1.180	(0.079)	1.515	(0.172)	1.530	(0.128)	0.885	(0.160)	0.800	(0.230)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
334112	1.355	(0.159)	1.091	(0.061)	1.321	(0.135)	1.321	(0.139)	0.989	(0.180)	0.969	(0.473)
334113	1.367	(0.061)	1.098	(0.021)	1.326	(0.041)	1.322	(0.067)	1.087	(0.102)	1.318	(0.518)
334119	1.242	(0.183)	1.055	(0.064)	1.253	(0.176)	1.249	(0.184)	0.765	(0.138)	0.577	(0.161)
334210	1.546	(0.147)	1.209	(0.078)	1.578	(0.157)	1.583	(0.138)	1.207	(0.138)	1.525	(0.561)
334220	1.128	(0.070)	1.018	(0.017)	1.117	(0.067)	1.113	(0.084)	0.848	(0.090)	0.586	(0.144)
334290	1.228	(0.049)	1.046	(0.015)	1.197	(0.036)	1.190	(0.042)	0.972	(0.041)	0.904	(0.124)
334310	1.048	(0.084)	1.003	(0.010)	1.031	(0.055)	1.057	(0.057)	0.925	(0.047)	0.727	(0.127)
334411	1.160	(0.078)	1.044	(0.031)	1.157	(0.056)	1.156	(0.064)	1.032	(0.044)	1.103	(0.189)
334412	1.332	(0.051)	1.131	(0.033)	1.316	(0.066)	1.208	(0.084)	1.023	(0.060)	1.055	(0.161)
334413	1.779	(0.328)	1.241	(0.120)	1.477	(0.149)	1.505	(0.148)	1.346	(0.202)	2.951	(3.951)
334414	1.269	(0.050)	1.075	(0.023)	1.209	(0.047)	1.246	(0.043)	0.995	(0.046)	0.990	(0.096)
334415	1.435	(0.109)	1.165	(0.055)	1.384	(0.081)	1.392	(0.083)	1.144	(0.134)	1.354	(0.529)
334416	1.414	(0.064)	1.172	(0.037)	1.405	(0.060)	1.404	(0.056)	1.047	(0.180)	1.075	(0.323)
334417	1.565	(0.198)	1.201	(0.096)	1.353	(0.125)	1.301	(0.171)	1.298	(0.122)		
334418	1.160	(0.031)	1.030	(0.010)	1.143	(0.027)	1.132	(0.038)	0.946	(0.040)	0.821	(0.099)
334419	1.076	(0.103)	1.006	(0.016)	1.051	(0.076)	1.093	(0.051)	0.922	(0.042)	0.735	(0.102)
334510	1.196	(0.262)	1.036	(0.075)	1.182	(0.207)	1.194	(0.155)	0.797	(0.368)	0.591	(0.377)
334511	1.073	(0.077)	1.006	(0.012)	1.069	(0.071)	1.107	(0.086)	0.697	(0.151)	0.453	(0.102)
334512	1.265	(0.064)	1.079	(0.026)	1.245	(0.049)	1.231	(0.040)	0.777	(0.070)	0.723	(0.047)
334513	1.277	(0.129)	1.056	(0.042)	1.199	(0.096)	1.191	(0.070)	0.812	(0.095)	0.635	(0.104)
334514	1.317	(0.141)	1.096	(0.068)	1.264	(0.130)	1.394	(0.117)	0.780	(0.113)	0.769	(0.080)
334515	1.426	(0.090)	1.124	(0.044)	1.374	(0.101)	1.401	(0.114)	0.868	(0.091)	0.779	(0.118)
334516	1.507	(0.058)	1.146	(0.021)	1.423	(0.034)	1.431	(0.045)	1.473	(0.310)		
334517	1.591	(0.285)	1.155	(0.101)	1.339	(0.148)	1.421	(0.172)	1.123	(0.159)	1.350	(0.660)
334518	1.532	(0.089)	1.188	(0.041)	1.393	(0.058)	1.419	(0.189)	1.179	(0.052)	1.492	(0.407)
334519	1.242	(0.164)	1.038	(0.044)	1.135	(0.095)	1.065	(0.115)	0.734	(0.158)	0.507	(0.131)
334612	1.209	(0.112)	1.075	(0.062)	1.236	(0.133)	1.285	(0.152)	1.004	(0.108)	1.006	(0.176)
334613	1.042	(0.103)	1.002	(0.011)	1.027	(0.062)	0.926	(0.057)	0.937	(0.057)	3.231	(17.274)
335110	1.408	(0.122)	1.245	(0.091)	1.451	(0.124)	1.425	(0.065)	0.914	(0.160)		
335121	1.320	(0.121)	1.116	(0.070)	1.306	(0.141)	1.297	(0.133)	1.061	(0.060)	1.136	(0.181)
335122	1.352	(0.117)	1.116	(0.056)	1.282	(0.091)	1.238	(0.060)	1.113	(0.047)	1.477	(0.428)
335129	1.324	(0.108)	1.111	(0.053)	1.305	(0.094)	1.291	(0.107)	0.965	(0.178)	0.939	(0.279)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
335211	1.217	(0.096)	1.085	(0.054)	1.280	(0.115)	1.244	(0.081)	0.745	(0.159)		
335212	1.207	(0.049)	1.066	(0.024)	1.207	(0.052)	1.208	(0.044)	0.946	(0.055)	0.907	(0.075)
335221	0.947	(0.108)	1.008	(0.034)	0.960	(0.069)	0.995	(0.063)	0.792	(0.032)	0.680	(0.079)
335222	0.898	(0.278)	1.035	(0.192)	0.949	(0.097)	0.967	(0.074)	0.903	(0.080)	0.671	(0.382)
335224	1.236	(0.090)	1.111	(0.059)	1.260	(0.093)	1.267	(0.086)	0.805	(0.139)		
335228	1.161	(0.076)	1.055	(0.039)	1.170	(0.072)	1.169	(0.070)	0.964	(0.130)	0.942	(0.176)
335311	1.386	(0.095)	1.154	(0.056)	1.343	(0.090)	1.306	(0.095)	1.063	(0.086)	1.125	(0.221)
335312	1.337	(0.028)	1.128	(0.016)	1.287	(0.037)	1.346	(0.034)	1.045	(0.037)	1.070	(0.067)
335313	1.397	(0.140)	1.093	(0.058)	1.180	(0.089)	1.323	(0.100)	1.081	(0.068)	1.186	(0.218)
335314	1.439	(0.033)	1.142	(0.015)	1.374	(0.041)	1.396	(0.031)	0.989	(0.059)	0.979	(0.106)
335911	1.078	(0.102)	1.016	(0.037)	1.076	(0.102)	1.106	(0.095)	0.668	(0.126)		
335912	0.965	(0.212)	1.003	(0.042)	0.974	(0.155)	0.949	(0.144)	0.768	(0.121)	0.614	(0.257)
335921	1.098	(0.128)	1.016	(0.039)	1.074	(0.112)	1.181	(0.133)	0.878	(0.047)	0.832	(0.067)
335929	0.345	(5.239)	3.394	(199.773)	0.907	(0.099)	0.984	(0.054)	0.871	(0.040)	0.612	(0.165)
335931	1.457	(0.063)	1.178	(0.033)	1.378	(0.057)	1.425	(0.061)	1.105	(0.066)	1.192	(0.162)
335932	1.401	(0.074)	1.160	(0.036)	1.357	(0.043)	1.353	(0.058)	1.024	(0.102)	1.038	(0.174)
335991	1.640	(0.344)	1.235	(0.157)	1.321	(0.149)	1.527	(0.208)	1.247	(0.174)	1.454	(0.661)
335999	1.240	(0.059)	1.054	(0.022)	1.203	(0.051)	1.225	(0.076)	0.812	(0.062)	0.686	(0.068)
336111	1.249	(0.044)	1.120	(0.033)	1.225	(0.054)	1.250	(0.043)	1.130	(0.052)	1.266	(0.238)
336112	0.053	(3.560)	0.153	(9.188)	1.083	(0.029)	1.242	(0.029)	1.132	(0.025)	1.273	(0.129)
336120	1.155	(0.033)	1.051	(0.015)	1.129	(0.027)	1.173	(0.031)	1.03	(0.031)	1.057	(0.073)
336211	1.311	(0.166)	1.072	(0.060)	1.120	(0.091)	1.174	(0.074)	1.095	(0.059)	1.427	(0.689)
336212	1.220	(0.030)	1.089	(0.020)	1.240	(0.059)	1.222	(0.042)	1.024	(0.032)	1.043	(0.064)
336213	1.211	(0.026)	1.067	(0.014)	1.188	(0.030)	1.194	(0.032)	1.113	(0.030)	1.560	(0.413)
336214	1.246	(0.029)	1.087	(0.019)	1.213	(0.045)	1.235	(0.042)	1.124	(0.043)	1.434	(0.351)
336311	1.599	(0.108)	1.243	(0.066)	1.285	(0.074)	1.384	(0.062)	1.253	(0.073)	1.704	(0.668)
336312	1.300	(0.209)	1.075	(0.045)	1.104	(0.095)	1.226	(0.056)	1.084	(0.058)	1.174	(0.199)
336321	1.153	(0.089)	1.027	(0.026)	1.081	(0.049)	1.173	(0.070)	0.968	(0.076)	0.939	(0.125)
336322	1.315	(0.081)	1.109	(0.043)	1.222	(0.068)	1.324	(0.053)	1.075	(0.067)	1.129	(0.150)
336330	1.281	(0.026)	1.126	(0.025)	1.263	(0.076)	1.287	(0.019)	1.094	(0.058)	1.157	(0.145)
336340	1.306	(0.061)	1.128	(0.028)	1.242	(0.030)	1.297	(0.028)	1.123	(0.063)	1.237	(0.210)
336350	1.277	(0.057)	1.110	(0.030)	1.193	(0.045)	1.257	(0.042)	1.122	(0.039)	1.261	(0.173)

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Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
336360	1.122	(0.058)	1.031	(0.023)	1.120	(0.051)	1.120	(0.057)	0.992	(0.064)	0.978	(0.163)
336370	1.494	(0.093)	1.275	(0.064)	1.428	(0.075)	1.453	(0.073)	1.344	(0.089)	2.046	(1.295)
336391	1.326	(0.111)	1.106	(0.059)	1.213	(0.086)	1.261	(0.059)	1.103	(0.088)	1.274	(0.396)
336399	1.377	(0.033)	1.170	(0.019)	1.295	(0.049)	1.330	(0.037)	1.188	(0.026)	1.464	(0.184)
336411	1.018	(0.064)	1.001	(0.004)	1.017	(0.059)	1.029	(0.053)	0.713	(0.059)	0.486	(0.061)
336412	1.435	(0.088)	1.148	(0.039)	1.382	(0.061)	1.39	(0.053)	1.085	(0.109)	1.199	(0.327)
336413	1.019	(0.051)	1.001	(0.004)	1.019	(0.051)	1.021	(0.046)	0.697	(0.042)	0.538	(0.045)
336414	1.060	(0.040)	1.005	(0.006)	1.062	(0.043)	1.065	(0.053)	0.659	(0.101)	0.355	(0.060)
336415	1.236	(0.111)	1.058	(0.045)	1.273	(0.134)	1.185	(0.057)	0.376	(0.154)		
336419	1.678	(0.101)	1.271	(0.050)	1.637	(0.079)	1.504	(0.049)	1.018	(0.136)	1.032	(0.249)
336510	1.219	(0.088)	1.065	(0.049)	1.184	(0.106)	1.236	(0.054)	0.972	(0.046)	0.953	(0.070)
336611	1.114	(0.100)	1.032	(0.043)	1.136	(0.106)	1.101	(0.118)	0.759	(0.201)	0.752	(0.084)
336612	1.295	(0.070)	1.105	(0.039)	1.198	(0.067)	1.240	(0.062)	1.138	(0.059)	1.463	(0.533)
336991	1.276	(0.090)	1.111	(0.048)	1.261	(0.064)	1.262	(0.073)	1.044	(0.093)	1.078	(0.198)
336992	1.188	(0.035)	1.043	(0.015)	1.150	(0.043)	1.231	(0.030)	1.022	(0.039)	1.054	(0.107)
336999	1.164	(0.075)	1.031	(0.030)	1.106	(0.075)	1.169	(0.055)	0.980	(0.039)	0.952	(0.084)
337110	1.373	(0.034)	1.156	(0.016)	1.281	(0.032)	1.307	(0.029)	1.226	(0.038)	2.035	(0.743)
337121	1.252	(0.060)	1.120	(0.035)	1.283	(0.046)	1.283	(0.051)	0.989	(0.168)	0.988	(0.177)
337122	1.619	(0.068)	1.317	(0.047)	1.403	(0.100)	1.449	(0.069)	1.368	(0.088)	2.558	(2.410)
337124	1.219	(0.037)	1.081	(0.021)	1.235	(0.045)	1.232	(0.053)	1.042	(0.095)	1.089	(0.249)
337125	1.196	(0.049)	1.078	(0.027)	1.240	(0.050)	1.228	(0.037)	1.124	(0.047)	1.449	(0.399)
337127	1.118	(0.108)	1.032	(0.046)	1.156	(0.130)	1.168	(0.134)	1.050	(0.148)	1.185	(0.801)
337129	1.278	(0.113)	1.121	(0.077)	1.255	(0.126)	1.265	(0.122)	1.159	(0.108)	1.492	(0.986)
337211	1.404	(0.086)	1.192	(0.057)	1.412	(0.092)	1.417	(0.065)	1.157	(0.116)	1.278	(0.334)
337212	1.436	(0.091)	1.193	(0.053)	1.400	(0.084)	1.391	(0.080)	1.328	(0.083)	3.540	(5.038)
337214	1.514	(0.065)	1.235	(0.042)	1.457	(0.073)	1.469	(0.075)	1.135	(0.036)	1.213	(0.089)
337215	1.341	(0.049)	1.135	(0.027)	1.307	(0.048)	1.321	(0.044)	1.187	(0.054)	1.645	(0.481)
337910	1.321	(0.116)	1.112	(0.060)	1.269	(0.113)	1.285	(0.089)	1.091	(0.101)	1.230	(0.387)
337920	1.369	(0.046)	1.103	(0.023)	1.215	(0.040)	1.250	(0.048)	1.069	(0.035)	1.194	(0.141)
339111	1.427	(0.104)	1.140	(0.044)	1.398	(0.073)	1.431	(0.067)	1.030	(0.234)	1.062	(0.512)
339112	1.344	(0.213)	1.097	(0.090)	1.281	(0.168)	1.290	(0.133)	0.827	(0.145)	0.743	(0.143)
339113	1.286	(0.105)	1.083	(0.046)	1.283	(0.097)	1.359	(0.066)	0.509	(0.126)		

Continued on next page

Table C.11 – continued from previous page

	Benchmark						Alternative					
NAICS	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)	γ	(s.e.)	γ_y	(s.e.)	α	(s.e.)
339114	1.438	(0.253)	1.134	(0.110)	1.328	(0.175)	1.241	(0.185)	1.018	(0.223)	1.051	(0.692)
339115	1.121	(0.142)	1.020	(0.041)	1.096	(0.113)	1.157	(0.124)	0.614	(0.065)		
339911	1.205	(0.084)	1.065	(0.034)	1.244	(0.066)	1.253	(0.067)	1.052	(0.108)	1.143	(0.374)
339912	1.243	(0.084)	1.081	(0.043)	1.231	(0.085)	1.246	(0.091)	1.026	(0.085)	1.054	(0.200)
339913	0.998	(0.034)	1.000	(0.000)	0.998	(0.036)	1.011	(0.038)	0.868	(0.046)	0.618	(0.089)
339914	1.273	(0.060)	1.087	(0.028)	1.251	(0.053)	1.249	(0.079)	0.871	(0.083)	0.820	(0.080)
339920	1.299	(0.134)	1.112	(0.067)	1.318	(0.112)	1.298	(0.084)	1.025	(0.123)	1.049	(0.261)
339931	1.566	(0.115)	1.271	(0.072)	1.590	(0.119)	1.624	(0.139)	0.843	(0.148)		
339932	1.393	(0.091)	1.161	(0.052)	1.410	(0.095)	1.428	(0.100)	1.156	(0.094)	1.346	(0.345)
339941	1.345	(0.086)	1.140	(0.047)	1.375	(0.079)	1.354	(0.097)	0.829	(0.112)	0.820	(0.082)
339942	1.033	(0.110)	1.002	(0.014)	1.033	(0.110)	1.080	(0.064)	0.455	(0.115)		
339943	1.410	(0.121)	1.142	(0.053)	1.345	(0.076)	1.381	(0.072)	0.999	(0.129)	0.999	(0.216)
339944	1.082	(0.041)	1.012	(0.010)	1.078	(0.038)	1.087	(0.036)	0.782	(0.084)	0.657	(0.047)
339950	1.286	(0.117)	1.093	(0.053)	1.278	(0.093)	1.256	(0.103)	1.047	(0.137)	1.126	(0.452)
339991	1.704	(0.052)	1.336	(0.035)	1.606	(0.059)	1.633	(0.038)	1.251	(0.060)	1.417	(0.168)
339992	1.176	(0.043)	1.038	(0.020)	1.104	(0.044)	1.172	(0.085)	1.002	(0.068)	1.005	(0.151)
339993	1.168	(0.091)	1.049	(0.038)	1.177	(0.074)	1.163	(0.064)	0.980	(0.130)	0.954	(0.272)
339994	1.090	(0.202)	1.015	(0.059)	1.081	(0.181)	1.130	(0.173)	0.747	(0.186)	0.717	(0.110)
339995	0.968	(0.204)	1.003	(0.039)	0.973	(0.170)	0.960	(0.174)	0.765	(0.150)	0.619	(0.275)
339999	1.444	(0.065)	1.175	(0.031)	1.386	(0.051)	1.399	(0.079)	1.169	(0.077)	1.422	(0.356)