

Pricing to market when quality matters

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Comments

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Introduction

- An Italian case: why were export-price and export-quantity indexes both increasing (2004-2005)?
- The double challenge of this paper to explain the effect of quality on PTM
- Theory: they propose an explanation of PTM within the new literature on firm heterogeneity by relying on preference for quality
- Empirics: bring the model to the ISAE microdata

Points

- Summarize the paper
- Comments on the theoretical model
- Reflections on the empirics

Theoretical model

- A clever extension of Melitz-Ottaviano (2008, RES) with love for quality
- “Dimensions” of the model: product j , firm location and market location l and l' (domestic o) \rightarrow cif and fob prices and PTM
- *Product heterogeneity*: horizontal and vertical differentiation in monopolistic competition
- *Consumers/markets*:
 - *country-specific heterogeneity* in the preference for variety and for quality (e.g. high-income countries have stronger preferences for high-quality goods) : γ_l and δ_l ;
 - degree of substitution with the homogeneous good is instead equal for all markets (α and η)

Theoretical model

- *Firm heterogeneity*, as usual with random productivity, but with an important addition regarding quality:
 - productivity changes depending on the market where the firm exports (adjusted productivity with perceived quality)
 - maybe an interpretation in terms of efficiency units of labor (special types of skills?) where the efficiency is destination-specific
 - Discussion

Theoretical model

- Exchange rate as one of the determinants of the cif-fob difference and domestic/export margin
- However, it is unidentifiable with respect to bilateral “transport costs”
- → Ok to interpret the results as general pass through rather than *exchange rate* p.t. (see page 10 and 24)

Empirical model

- Ordered Probit
- Classical and random-coefficient estimation (with some bayesian flavor?)
- Pooled and non-pooled estimation

Empirical model: suggestions

- More exploration on some explanatory key variables:
 - For *hp2* (firm size as a proxy for the level of quality and productivity) more investigation, e.g. presenting statistics at the sectoral level
 - which relationship between *npc* quality variable and ATECO sector?
- Include an interaction term, $pcf * npc$, and discuss $(b_1 + b_2 npc)$ as coefficient
- What explanation for a non monotonic effect of export intensity on the export-domestic price margin?
- Provide measures of the goodness of fit in the Tables

Conclusion

- It is a good paper that tries to link macroeconomics and new-new international trade theories for PTM
- Key role of quality in explaining some puzzles in export price and quantity indexes
- A plausible and already discussed explanation, but with strong theoretical underpinning