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Dissertation Title: *Trade cost and export diversification: evidence from Chinese firms*

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    Macroeconomic Theory, Winter 2017
    Macroeconomic Analysis and Application, Winter 2013, Winter 2016
    Microeconomic Theory, Fall 2012, Fall 2013, Fall 2015
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Papers:
"Trade Cost and Export Diversification: Evidence from Chinese Firms" (Job Market Paper, joint with Yifan Li)

"Multiple-quality Cournot Oligopoly and the Role of Market Size" (Joint with Ngo Van Long)

"Income Distribution, Vertical Differentiation, and Quantity Competition"

"Trade costs, Import Penetration, and Markups" (Joint with Yifan Li)

"Direct and Relative Effects of Tariff: Method and Application Using the Industrial Level Data" (Joint with Xiaokang Wu and Jinping Yu)

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July 2017 "Trade Cost and Export Diversification" CIREQ Lunch Seminar
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Dissertation Abstract

My dissertation explores how firms adjust their market strategies, i.e. products' price, quality, and export scope, in response to varying market conditions.

The first chapter "**Trade Cost and Export Diversification: Evidence from Chinese Firms**" (job market paper), studies how Chinese exporters adjust their export scope (the number of product varieties) to the different characteristics of destination countries, as well as a reduction in trade costs of trade cost. Using the Chinese firm-level customs data from the years 2001 and 2006, we find that: firms export fewer varieties (indexed by a HS6 code) to destination that are farther away from the home country, larger tariff rate or higher exchange rate volatility. In response to the reduction in tariffs following China's entry to the WTO in 2001, the high productivity firms expanded the export scope while the low productivity firms reduced it. We construct a theoretical model which considers firms' optimization decision involving both output and export scope to explain all our empirical findings, especially the relation between the choice of the export scope and the exchange rate volatility of the destination countries.

The second chapter "**Multiple-Quality Cournot Oligopoly and the Role of Market Size**", considers an oligopoly where firms can choose the quality level of their products by incurring a setup cost that depends on quality level. If the set-up cost is independent of product quality, firms may choose to supply both types of quality. We focus on the long run equilibrium where free entry and exit ensure that the profit for each type of firm is zero. Using this framework, we study the implications of an increase in the market size. We show that for the existence of an equilibrium where some firms specialize in the low-quality product it is necessary that the setup cost for the lower quality product, adjusted for quality level, is lower than that for the higher quality product. In the case where the unit variable costs are zero, or they are proportional to quality level (so that unit variable costs, adjusted for quality, are the same), we show that an increase in the market size leads to (i) an increase in the fraction of firms that specialize in the high-quality products, (ii) the market shares (both in value terms and in terms of volume of output) of high quality producers increases, and (iii) the prices of both types of product decrease. In the case where higher quality requires higher set-up cost (per unit of quality) but lower unit variable cost (per unit of quality), subject to certain bounds on the difference in unit variable costs, we obtain the result that an increase in the market size decreases the number of low quality firms, increases the number of high quality firms, and decreases the prices of both products. In the special case where the set-up cost is independent of quality level, we find that all firms will produce both type of quality levels. In this case, an increase in the market size will reduce the value shares of low quality products, but will leave their volume share unchanged; and the market expansion induces a fall in the relative price of the low-quality product, and in the prices of both products in terms of the numeraire good. We carry out an empirical test of a version of the model, where set-up costs now refer to set-up costs to establish an export market, and they vary according to the quality of product that the firm exports to that market. We show that the data support the hypothesis that the average qualities of the product are higher for larger export markets.

The third chapter, "**Income Distribution, Vertical Differentiation, and the Quantity Competition**", analyzes the effects of the change of the income distribution on the equilibrium outcomes in a duopoly-quality model with quantity competition. When the quality-upgrading cost is zero and an income inequality not too high, then both firms always choose the highest quality level. If the quality-cost is convex, then the average quality level decrease and vertical differentiation level increase in the income inequality. I also provide sufficient conditions under which a firm chooses multiple levels of the quality, i.e. more specifically, the quality-cost function has to be convex, vertical differentiation has to be large enough and the marginal cost should not be too high.