Cyclical Fluctuations in International Trade Volumes

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ABSTRACT

In postwar time series data, the elasticity of cyclical fluctuations in import volumes to measures of economic activity is well over two. A large class of models of international trade predict this elasticity to be one. This presents a challenge to these models with otherwise well regarded cross-sectional implications for trade. In this paper, we document these facts and explore simple dynamic modifications of existing models and their ability to quantitatively replicate the high elasticity of imports with respect to domestic absorption measured in U.S. time series data. In particular, we focus on the joint effect of time-to-ship and trade financing frictions in their ability to resolve this puzzle.

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