Staggered Adjustments and Trade Dynamics
(with Jonathan Eaton and Samuel Kortum)

Abstract

We allow for the possibility that consumers are slow to adjust on the extensive margin by adding one new parameter to a Ricardian model of international trade. This extension provides a simple and parsimonious way to capture the low elasticity of trade to relative cost in the short run (as needed in open-economy macro models), together with the high elasticity in the long run (as needed trade models). We use the model to assess, at different horizons, how the global economy adjusts to rebalancing trade.