Understanding Interstate Trade Patterns

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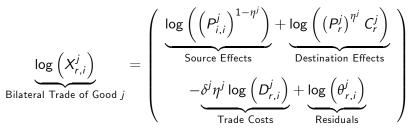
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• Interstate trade patterns are investigated within the U.S.

- The following elasticities are all identified:
 - Elasticity of substitution across goods
 - Elasticity of substitution across varieties of each good
 - Elasticity of distance for each good.
- Elasticity of substitution estimates are lower.
- Elasticity of distance estimates are higher.
- Home-bias effects are decreasing over time.

Bilateral Interstate Trade at the Good Level

 Under CES, the bilateral trade value from state i to state r for good j is obtained as:

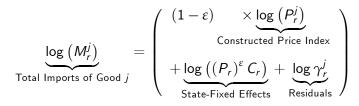


- η^j is the elasticity of substitution across varieties of good j
- δ^{J} is the elasticity of distance
- η^j versus δ^j are identified using both trade and production-side data.
- Commodity Flow Survey data (2007; 2-digit) are used for trade.
- Gross markup data (from Census Bureau) are used for estimating η^j 's.
- The average η^j (across industries) is estimated as 3.01.
- The average δ^{j} (across industries) is estimated as 0.45.

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Aggregate Interstate Trade at the Good Level

• Under CES, the good-level import value of state *r* for good *j* is obtained as:



- $\ensuremath{\varepsilon}$ is the elasticity of substitution across goods
- P_r^j is constructed using estimated variables/parameters according to:

$$P_{r}^{j} \equiv \left(\sum_{i} \theta_{r,i}^{j} \left(P_{i,i}^{j} \left(D_{r,i}^{j}\right)^{\delta^{j}}\right)^{1-\eta^{j}}\right)^{\frac{1}{1-\eta^{j}}}$$

• ε is estimated as 1.09.