DETERMINANTS OF MARKET EXIT: MULTINATIONALS VS. DOMESTIC FIRMS IN CHILE (JOB MARKET PAPER)

We present a study of the impact of foreign integration in the Chilean economy and how it affects firm exit behavior. Economic integration with foreign owned and multinational firms is an important channel of foreign direct investment (FDI) to domestic firms, and has been argued as a crucial conduit for technology transfer in developing economies. At the same time, it has been reported that economic integration has been pushing out domestic firms through increased competition. We seek to answer this question by measuring the impact of the level of economic integration, defined in both horizontal terms, where we examine the penetration of foreign firms in the domestic market, and also in vertical terms, which are defined by the assimilation of multinationals into the production chain.

We use a panel of Chilean manufacturing firms from 1995 to 2007, to investigate firm exit and entry behavior of domestic and foreign-owned firms. During this period, the substantial increase in FDI in the region, coupled with the continuous support of trade and investment liberalization gives us a strong sample of firm exit behavior. I control for geographical regions, foreign ownership, and market competition levels that can affect the impact of economic integration. The empirical results reveal that a stronger multinational presence are more likely to push out domestic firms in industries that use lower technology, such as food, leather, and wood. Integration through vertical supply chains, on the other hand, enhance firm survival in low-tech markets. These results contradict previous findings on the impact of multinationals on plant survival.

While empirical analyses in other industries are inconclusive, the results suggest that increased competition from economic integration outweighs the effect from technological transfer from foreign investment. This trend is especially prevalent in industries that have a large technological gap between domestic and foreign-owned firms. These findings carry many implications for both policymakers and investors.

FIRM INNOVATION AND FIRM HETEROGENEITY: AN EXERCISE IN EXTERNALITY

This paper introduces a heterogeneous firm model that endogenizes the firm’s choice to innovate and improve its productivity. This model incorporates different aspects of research and development (R&D): the general equilibrium competition consequences and firm level productivity consequences of innovation in a model with firm heterogeneity. I find that there exists a net gain in consumer welfare compared to a regime with no innovation. Externalities such as an increase of non-innovation entry costs increase average prices and firm output, but reduce the number of entrants in the market. R&D subsidies are found to lower prices and increase product variety, but have an ambiguous impact on consumer welfare.

THE ROLE OF LABOR STANDARDS ON TRADE: THE CASE OF ILO CORE CONVENTIONS

I present a paper that estimates the effects of international labor standards on trade flows. I measure the effect of labor standards by using a qualitative index of labor indices created by Cuyvers and Van Den Bulcke (2007). Using information from 172 countries during the period of 1995-2009, I use the labor indices in a gravity model to estimate the effect of labor standards on bilateral trade. Estimation results show a complex relationship between compliance to the core conventions of the International Labour Organization (ILO) and bilateral trade flow. Further analysis shows that labor standards significantly affect the extensive margin of trade, but have little impact on the intensive margin.

TESTING MINI-MAX BEHAVIOR: AN APPLICATION TO MAJOR LEAGUE BASEBALL (WITH JUN SUNG KIM)

Traditional game theory has assumed that in a two-player, zero-sum game, a participating player will try to minimize the maximum outcome of this opponent, while trying to maximize his own minimum payoff. In order to test these hypotheses, we use professional sports data that emulates the boundaries of game theory. Applying a robust dataset of MLB pitches and outcomes, we find that pitchers do not follow mini-max behavior, but rather a random pattern. Further analysis is to be conducted with additional data from the batters side.