

Trade, Misallocation, and Capital Market Integration

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This paper

- Analysis:
 - ① GE Heterogeneous entrepreneur/household/firm model
 - financial frictions constrain productive firms
 - endogenous work/start a firm decision
 - lots of firm heterogeneity: productivity, exporting
 - ② calibrated to (EU core vs new member states) in 90's and 00's
- Findings:
 - faster capital market liberalization (CML) \Rightarrow both welfare and missallocation \uparrow
 - Hungary: delaying CML by 10 years cost 1% of welfare

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My comments/suggestions:

- Nice paper with very well executed model
- ?: Nothing in the model that could make the late CML optimal

Comments

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- Is there a world where delayed CML is optimal?
 - the present model: firm/entrepreneur/worker is citizen is one agent
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- Suggestion: home bias in production + transitional assets pricing
 - home bias in consumption ok, why not production?
 - assets are cheap in catching up countries

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- **Government: max home W + dislike for foreign ownership χ**
 - reduced form: directly in utility function
 - possible micro foundations: profit shifting abroad, preference for home labour when responding to global shocks,...

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- Optimal timing of CML: speed of liberalization a function of
 - starting level of productivity/wealth in transforming country
 \Rightarrow countries closer to their ss liberalize faster
 - more empirically testable predictions

Thank you!