

# International Trade Theory and Empirics

Zhiyuan Li<sup>1</sup>

School of Economics  
Fudan University

August 8, 2016

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<sup>1</sup>Fudan University, Shanghai, China

- International Trade Research: Idea, Topic, Execution and Publication
- Sample Research #1: Exports and Credit Constraints under Incomplete Information, REStat 2014
- Sample Research #2: Task Offshoring and Organizational Form, JEBO 2013

- What makes a researcher good researcher
  - Interest

- What makes a researcher being interested in economic research
  - Asking questions that *you* want to know the answer
    - Literature review: the question has not being answered by literature
    - Critical thinking when reading papers

- Common problems when asking questions
  - Chasing the “hot topic”
    - Feel too many researches have been done in the same field and there is no more niche
    - Myopic so won't touch deep
    - Must be a question that you self are puzzled
  - Giving an easy answer and jump to a conclusion
    - Usually, the answer is just a hypothesis
    - Is there a theory that makes the answer logically correct?
    - Is there evidence?

- Common problems when asking questions
  - Pull together lots of factors and conclude all are important factors
    - Superficial on the mechanism of each factor
    - Focus on one factor and go deeper
  - Think peculiarity and make no further effort to investigate
    - Abstract and find the common theme
  - Think the question is too complicated and give up
    - There is at least one factor that matters (ignore other factors for simplicity)

- How to ask questions that interest yourself
  - Read a lot of research (horizon expansion)
  - Carefully study some important research
  - Critical thinking
    - Do not easily buy what the paper want to sell (Wrong answer?)
    - If the paper is right, what is the *limitation* of the paper (Alternative answer?)
    - What is the mechanism that the paper does not cover? (Always go DEEPER!)

- Try to ask questions from the state-of-art research
  - Melitz (2003): what shows resource reallocation, resource reallocation within exporters?
  - Melitz and Ottaviano (2008): open in the foreign market makes more competitive market at home and less in the foreign market?
  - Dornbusch, Fischer, and Samuelson (1977): why low skill labor considered inferior to high skill labor?
  - Autor, Dorn, Hanson (2013): is it export competition or offshoring induces negative impacts on US labor market?



- Is the question that puzzles you necessarily an extremely difficult question that you will never be able to answer? NO!
  - Maybe an easy question or a hard one
  - A easy question is valuable
    - Trouble must not be too easily recognized
  - The point is, can the answer you give satisfy you? Would you say that “ahha, got you” after your research?
  - It is a business that *you entertain yourself*!

- When your question is a hard one, congratulations!
  - If no one knows the answer and when it takes you a huge amount of time to work out the question, you are changing how a profession thinks and furthering what we know about our world
    - Why Melitz (2003) is important?
  - Conflict and pain go with the territory though
    - Yitang Zhang
  - Less popularity? possibility to fail?
    - Think clear what you want and choose your career path carefully
    - That is the nature of RESEARCH and it is where breakthrough may arise

- If everyone likes your work, you can be certain that you haven't done anything important
  - Do not take shortcut
    - to conform, to accept fashionable ways of analyzing problems
    - to please senior professors and their own peers
  - This is bad for scientific progress
  - Follow your own agenda not that of the herd
  - It is hard, but that is why we take this career

- If everyone does not like your idea?
  - Ask yourself:
    - would you feel comfortable if you leave the question unanswered?
    - do you think answering the question may change people's view on the subject?
    - If YES, go for it
  - Difference between world-class researchers and sound researchers is
    - energy, (*reasonable*) *single-mindedness*, more energy, and the ability to withstand what will feel like never-ending disappointment, tiredness and psychological pain
  - Work on what you believe in; it will help sustain you as a researcher.
    - Try not to forget that, even when tempted and faced with endless rejection.

- Is it necessary that your research topic is “relevant”, “problem-solving”, “China-related” or “social important”?
  - Answer is in general “NO”
  - Economist should not pretend to be policy-maker
    - We care about why, but not what or how
    - Much of the “relevant” research in economics left little lasting mark on the subject
    - Policy related research typically shed no insight at all on wisdom
  - Top level journals in Economics evaluate the paper based on scientific considerations, i.e. whether it provide new knowledge to a subject rather than “importance” in reality
    - Think about theories in international trade

- Is it necessary that your research topic is “relevant”, “problem-solving”, or “China-related”?
  - The current atmosphere in China says YES though.
    - Grant application
    - Policy discussion
    - Popularity
    - Academic awards
  - It is a development-stage dependent tendency. Hope it might change in the future.

- How to conduct a research
  - Seen some people done some research on the SAME topic? NOT a problem.
    - Keep asking WHY WHY WHY: Mechanism, Mechanism, Mechanism
    - This is how you differentiate your research from others, even on the same topic
  - Realized some of your idea have been done by others? Your paper is on a so-so journal and that research is published in a great journal?
    - Others went deeper than you! study that paper to check what you can learn from it
  - E.g. Corruption vs economic development
    - Suppose positive correlation (why)
    - Suppose negative correlation (why)
    - Under what condition one impact may dominate the other?

- How to conduct a research
  - With your idea in mind, try work it out before you read a lot of literature
    - Reading too much literature before you develop your idea limits your way of thinking
    - Of course, you should have paved some base earlier in your graduate classes and when you read classical papers
    - After you work a bit on your idea and then read the literature, you may realize the novel points in your thoughts
    - Even when later you find somebody has done very similar work as yours, it is OK as you can see subtle differences
    - New ideas may come following your earlier work, even when your earlier idea has already been done



- Economics is Science
  - Hypothesis: theory (need to ask is it what really happen in reality)
  - Empirics: evidence (need to ask why)
  - Theory plus empirics: (need to ask can it be applied to other settings)
    - *Tighten the relationship between theory and empirics*
    - The empirics finding should be explained by and only by the mechanism provided by the theory
  - Hypothesis (theory) might be proved to be wrong in the future!
    - But it is OK. Subject to scrutiny by other researchers

- Research in International Trade
  - Start from empirics (what happens in reality matters)
    - Stylized fact
    - Correlation
    - Causal relation (big gap in between of correlation and causal relation)
  - Theory needed to guide empirical research direction
    - E.g. regress Num\_of\_exits on fixed cost
    - supposed to be positive but found negative

- Research in Economics

- When theory and empirics do not match, check
  - theory
  - empirics
- Both are possible to be wrong!
- Examples:
  - Uncertainty paper: exits of firms with reduced uncertainty
  - Credit constraint paper: wrong expression of the profit max problem
  - Credit constraint paper: TFP1 and TFP2

- Research in Economics
  - If no mistakes have been made during the research process, for sure you have made some mistakes and you are not aware
    - Check again of your paper
    - Present your paper as many as possible
    - Do not try too hard to defend your paper when giving presentation, try to understand what is the confusing part that leads people to give comments you don't like.

- Research in Economics
  - After your theory is developed
    - Give simple examples
    - Simplify your theory, keep it simple, stupid
    - Highlight the main mechanism you want to emphasize
  - Simplified model are easier to get generalized
    - key assumptions are exposed in the simplified model

- Research in Economics
  - Excited yesterday and disappointed today
    - Up and downs in each research, not just you
  - Facing too difficult problem that you cannot solve for too long
    - Step back and think about your original motivation
    - Economics matters more than techniques. Let your subconscious and intuition guide you

- Research in Economics
  - Key (though not sole) factor that leads to publish of your paper
    - Good execution
  - For theory:
    - assumptions, extensions, explanations
  - For empirics
    - Robustness checks, alternative explanations, endogeneity discussions

- Writing a paper
  - Scientific way of writing (English approach, not Chinese approach)
    - Main point and then details
    - Avoid poetic paragraph
  - Clarity of writing is more important than any other single thing
    - Short paragraph, short sentence
    - Focus on one point in each paragraph
  - Read your paper each time as a new reader in order to find points to improve
  - *Economical Writing (2000)* by Deirdre Nansen McCloskey



- Writing a paper
  - Writing from a reader's perspective rather than a writer's perspective
    - Clear logic (do not assume readers may already know some points)
    - If you want to say something, say it out, clear and loud. Otherwise, keep it to yourself
    - Avoid too many footnotes
    - Self-contained presentation
  - Having a really good abstract and title
    - Helpful for avoid desk-reject and get more citation

- Writing a paper
  - Clearly present your main point in the introduction
    - Readers expect to understand your paper just reading your introduction
    - Being clear about the contribution and relating it accurately to other papers
  - A serious conclusion section is also essential
  - Three parts of a paper
    - Part one: everybody understand
    - Part two: somebody understand
    - Part three: nobody understand

- Language Editing for Chinese Economist
  - Try find a native English-speaker co-author, benefits include
    - Generally your coauthors are more experienced. They know how to make a paper more important
    - They have more resource to sell your paper
    - They write better than you
  - At least have some professional language editor to proofread your paper

- Presentations

- Why it is important

- You are forcing people to listen to you so you have to attract them
    - In order for attracting people, you have to make your point *straight-forward, concise, and organized*
    - These understandings about your own work may help when you write your paper
    - Audience are resources because they can show how they will respond to your idea, which you will not know by writing the paper yourself.

- Presentation is communication

- Convey your idea in your presentation, not in your slides
    - Keep your slides as simple as possible as long as it can support your presentation

- Submission of the paper
  - Identify the level of journal you want to shoot
    - Do not shoot too high
  - Pick first a journal a bit higher than the journal you really want
    - Collect comments to improve your paper
  - Submit your paper once you do not benefit much from discussion with others
    - Striving for absolute perfection is wrong for most people at most times
- Rejected?
  - Keep calm and move on! Do not lose your confidence on your work.
  - Do not attempt to annoy the editor

- Revise and Resubmission? Congratulations!
  - Revise according to the comments by the reviewer as much as possible
    - Do not dispise the reviewer even if they have some unrealistic comments
    - By and large, reviewers understand papers well enough to evaluate them
    - When they don't, it is usually because the author failed to communicate very well
    - Moreover, referees offer good advice about how to improve the paper and take the research to the next level.
    - You will eventually find that your paper is improved after the revision, even though you don't think so in the very beginning

- Revise and Resubmission? Congratulations!
  - Try to understand the main concern *deep down* in the reviewer letter
    - That concern sometime is not very explicitly written in the letter
    - Address this concern as hard as possible.
  - See comments that you don't understand?
    - Read them *many more times* and then you will understand!

- Keep a "portfolio" of problems to work on
  - If you are not making progress on one, switch to another
  - Keep your mind stay fresh
  - Feel less depressed about the lack of progress on one problem



- Maintain a youthful sense of freedom to choose problems and the directions of work on them
  - Try not be labeled or confined to a particular “field”
  - Attend seminars in all areas that you are interested
  - Work on things that you find fun
  - I hope I can do this. I shall try.

# Conclusion

- Entertain yourself by asking and answer questions that you want to understand
- Try work out the mechanism. Dig deeper
- Be single-minded and endure pains along the way
- Clear in writing your paper
- When writing, try put your feet in the shoes of the readers
- GOOD LUCK!

- Exports and Credit Constraints under Incomplete Information: Theory and Evidence from China
  - 2014, REstat
  - with Rob Feenstra and Miaojie Yu

- Task Offshoring and Organizational Form: Theory and Evidence from China
  - 2013, Journal of Economic Behavior & Organization

- Trade Policy Uncertainty and Exports: Evidence from China's WTO Accession
  - 2015, NBER working paper 21985
  - with Ling Feng and Deborah Swenson