

Staggered Adjustments and Trade Dynamics

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Abstract

We develop a theory of staggered adjustment dynamics in a perfect competition model of trade with a continuum of varieties. New technologies for each variety arrive at a constant rate. The consumer consumes a product produced with a certain technology until an exogenous shock arrives. This shock signals her to optimize among all producers from all the countries. The model delivers structural equations for the impact of past trade on current trade. We use the model to explore the gradual adjustment of trade due to changes in trade costs.

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