Essays on International Trade, Growth, and Finance

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Two concerns in international economics motivate the essays: "Does foreign trade harm or foster growth?" and "What role does information play in financial markets?"

Does foreign trade harm or foster growth? Two essays look at this question under different perspectives. The first essay investigates microeconomic effects empirically. It analyzes through which channels trade has brought about productivity change in Brazil after the country liberalized its tariff act in 1990. Foreign competitive pressure instilled Brazilian manufacturers to improve efficiency strongly. The induced exit of inefficient firms raised average productivity in addition. A careful causal analysis separates these and further channels.

The second essay takes a dynamic and macroeconomic approach. It clarifies theoretically that trade can contribute to reducing the productivity gap between less developed and more advanced regions, even if the advanced region hosts most of the innovative industries with dynamic externalities. Productivity may diverge in some cases. Even then both regions can benefit more from trade than they lose.

What role does information play in financial crises? There is evidence that investors have information about troubled assets early on but do not act upon it until a crisis sets in. This behavior has consequences for the timing of crises and their prevention.

The two essays in the second part introduce an integrated model of information acquisition and portfolio choice. Employing different conjugate prior distributions, the essays show under what circumstances investors value information and act on it. Most importantly, more information allows an investor a better portfolio choice and helps reduce the variance of the portfolio. The approach provides new tools for the analysis of information in financial markets, resolves a long-known no-equilibrium paradox, and clears the way for an application to international financial crises in subsequent research.