

“Demand Learning, Customer Capital and Exporter Dynamics”

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Abstract

The dynamics of exporters are extremely rich, with complicated patterns of entry, growth and exit. We develop a general equilibrium trade model in which these dynamics arise endogenously as a result of a customer accumulation friction and imperfect information about demand that can be resolved through learning. These ingredients are not independent—they interact in an important way. Acquiring a customer plays a dual role of increasing the potential sales of a firm and also providing another person from whom a firm can learn about demand. We show that this model does a good job of quantitatively replicating exporter dynamics from the data and provides new insights into the effects of trade liberalization and protectionism. Due to the interaction of customer capital and learning, the effects of changes in trade costs are much more convex than in a simpler model that ignores the dynamics of firms. Relatively open economies gain more from trade liberalization than in the simpler model, while more closed economies gain less. For the US, the increase in GDP from trade liberalization is amplified by as much as 30%.