

Do What You Know and Leave the Rest to the Experts: Quantifying the Gains from Efficient Trading

Mario Larch

We develop and test a theory of efficient international trade. Efficiency gains arise through lower trade costs faced by the 'trade specialists', whose superiority in trading manifests itself through two channels: lower fixed costs and economies of scale in variable trade costs. To test the model, we construct a novel firm-level merchanting database, which enables us to identify and decompose the efficiency gains that are associated with fixed vs. variable costs. Our estimates strongly support the theory and reveal that the trade costs for the 'trade specialists' are indeed lower than for non-specialists. We capitalize on several dimensions of the new merchanting data to explore the sources of the efficiency gains.