Empirical specification: The estimated equation

- Relate the import price p to the export price $\widetilde{p}$ given both additive (per-kg) costs t and ad-valorem costs τ:

$$p = \tau\widetilde{p} + t, \quad \text{with} \quad \tau \geq 1, \quad t \geq 0$$

- For product k, from country i
- Rewrite to get:

$$\frac{p_{ik}}{\widetilde{p}_{ik}} - 1 = \tau_{ik} - 1 + \frac{t_{ik}}{\widetilde{p}_{ik}}$$

$\Rightarrow$ Estimate this equation for each year over 1974-2013

- The equation being also year- and mode (air or vessel)- specific