

Motivation (cont')

- ▶ Standard modeling of trade costs: As an ad-valorem tax-equivalent
 - As a constant percentage of the producer price per unit traded
 - ⇔ The “iceberg cost” hypothesis (Samuelson, 1954)
 - ▶ Yet... A debated question
 - ▶ Would not trade costs rather exhibit an additive structure ?
 - Why would it be more expensive to transport one pair of Italian shoes of price 300 € than a pair of Spanish espadrilles of price 10 €?
 - ▶ The structure (additive vs iceberg) of transport costs, not anecdotal
 - Additive trade costs & the pattern of trade flows (Alchian & Allen, 1964)
 - Strong normative implications (Sorensen, 2014)
 - The additive structure of trade costs is supported by recent empirical evidence (Irrarazabal et al. 2014, Hummels & Skiba, 2004)
- ⇒ Trade costs are likely to display an additive component, but precisely... by how much?

One objective of the paper: Provide an answer to this question