Measured Productivities in the Melitz Model

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Abstract

This note clarifies the productivity implications of the Melitz (2003) model, and shows that the model implies some counterintuitive results in conventional measures of productivity. The measured productivities become lower if a non-exporting firm becomes an exporter after a reduction in trade costs. If an economy switches from autarky to an open-economy, the measured productivities decrease for all the surviving firms. The measured productivities are possibly lower for exporters than non-exporters. The fixed cost of exporting in the model causes this counterintuitive implications.

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