

# Productivity and Trade Dynamics in Sudden Stops <sup>\*</sup>

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## Abstract

This paper studies productivity and trade dynamics during sudden stop episodes. Sudden stops of capital inflows to emerging economies are characterized by deep recessions, slow recoveries, sharp devaluations, and reversals in the trade balance. We develop a framework to capture these salient features of sudden stops. The model features endogenous productivity and trade dynamics, and endogenous sudden stops. In this environment, firm and product entry and exit into domestic and export markets play a key role in shaping the dynamic response of the economy to a sudden stop. We discipline the model using unique firm-product level data in both domestic and export markets from a census of manufacturing firms in an emerging economy. The calibrated model matches the key stylized facts of sudden stops and their aftermath. The model suggests that a persistent slowdown of productivity growth accounts for 38% of welfare loss by a sudden stop.

*Keywords:* Endogenous growth, Firm dynamics, Trade dynamics, Sudden Stops.

*JEL classification:* F10, F41, F43, F44, O33

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