

Revisiting the determinants of unit prices

Tadashi Ito¹

Okinawa University, Japan

First version: June 2011

This version: November 2011

Abstract:

The previous literature's predictions on the determinants of unit price is reviewed. The predictions by the general equilibrium trade theories, which include the heterogeneous firms trade models (Eaton and Kortum (2002), Melitz (2003), Baldwin and Harrigan (2011), among others) are shown not to conform to the majority of the international trade. Quantity, which is not the determinant of unit price in the general equilibrium theories, is shown in fact to be the main determinant of unit price.

Key words: Heterogeneous firms trade model, Unit price, Price discrimination, Quantity discount

JEL Classification: F14

¹ Okinawa University Office 3-405, Aza-Kokuba 555, Naha, Okinawa, Japan;
tadashi.ito@graduateinstitute.ch; Phone/Fax: 81- (0)98-9937989