

Abstract :

This paper presents a model of monopolistic competition where the observed heterogeneity in sales, profits and markups across firms can be explained by differences in quality, costs and consumer tastes. The standard quadratic utility function is generalized to allow for vertical and horizontal differentiation. Equilibrium prices and quantities are shown to depend on the quality and cost distributions; quantities also depend on idiosyncratic tastes. The interaction between supply- and demand-side heterogeneity allows us to accommodate recent empirical evidence based on micro-level trade data and obtain results that models of cost or quality heterogeneity alone are unable to capture. Using a detailed micro-level dataset on Belgian exporters, we show that the data do not reject our model and display features that are incompatible with existing trade models.

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The Center for Research in Economic Analysis of the University of Luxembourg is pleased to invite you to the **Lunchtime Seminar in Economics:**

Verti-zontal differentiation in monopolistic competition

(Joint with Jacques Thisse and Hylke Vandenbussche)

Francesco Di Comite
Université Catholique de Louvain

June 15, 2011
13:00 – 14:00

Campus Limpertsberg
Building of Science – Room BS001
162a, avenue de la Faïencerie
L-1511 Luxembourg

Lunch is planned for the participants

Registration: by email to fdel-colloques@uni.lu

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