



American Economic Review

ISSN 0002-8282 (Print) | ISSN 1944-7981 (Online)

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Trade Finance and the Great Trade Collapse

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AMERICAN ECONOMIC REVIEW
VOL. 101, NO. 3, MAY 2011
(pp. 298–302)

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Article Information

Abstract

Economic models that do not incorporate financial frictions only explain about 70 to 80 percent of the decline in world trade that occurred in the 2008-2009 crisis. We review evidence that shows financial factors also contributed to the great trade collapse and uncover two new stylized facts in support of it. First, we show that the prices of manufactured exports rose relative to domestic prices during the crisis.

Second, we show that US seaborne exports and imports, which are likely to be more sensitive to trade finance problems, saw their prices rise relative to goods shipped by air or rail.

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Ahn, JaeBin, Mary Amiti, and David E. Weinstein. 2011. "Trade Finance and the Great Trade Collapse." *American Economic Review*, 101 (3): 298–302.

DOI: 10.1257/aer.101.3.298

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JEL Classification

E32 Business Fluctuations; Cycles

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F44 International Business Cycles

G01 Financial Crises

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