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Off the Cliff and Back? Credit Conditions and International Trade during the Global Financial Crisis

Davin Chor & Kalina Manova

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We study the collapse of international trade flows during the global financial crisis using detailed data on monthly US imports. We show that credit conditions were an important channel through which the crisis affected trade volumes, by exploiting the variation in the cost of capital across countries and over time, as well as the variation in financial vulnerability across sectors. Countries with higher interbank rates and thus tighter credit markets exported less to the US during the peak of the crisis. This effect was especially pronounced in sectors that require extensive external financing, have limited access to trade credit, or have few collateralizable assets. Exports of financially vulnerable industries were thus more sensitive to the cost of external capital than exports of less vulnerable industries, and this sensitivity rose during the financial crisis. The quantitative implications of our estimates for trade volumes highlight the large real effects of financial crises and the potential gains from policy intervention.

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AUTHOR(S): Davin Chor Kalina Manova

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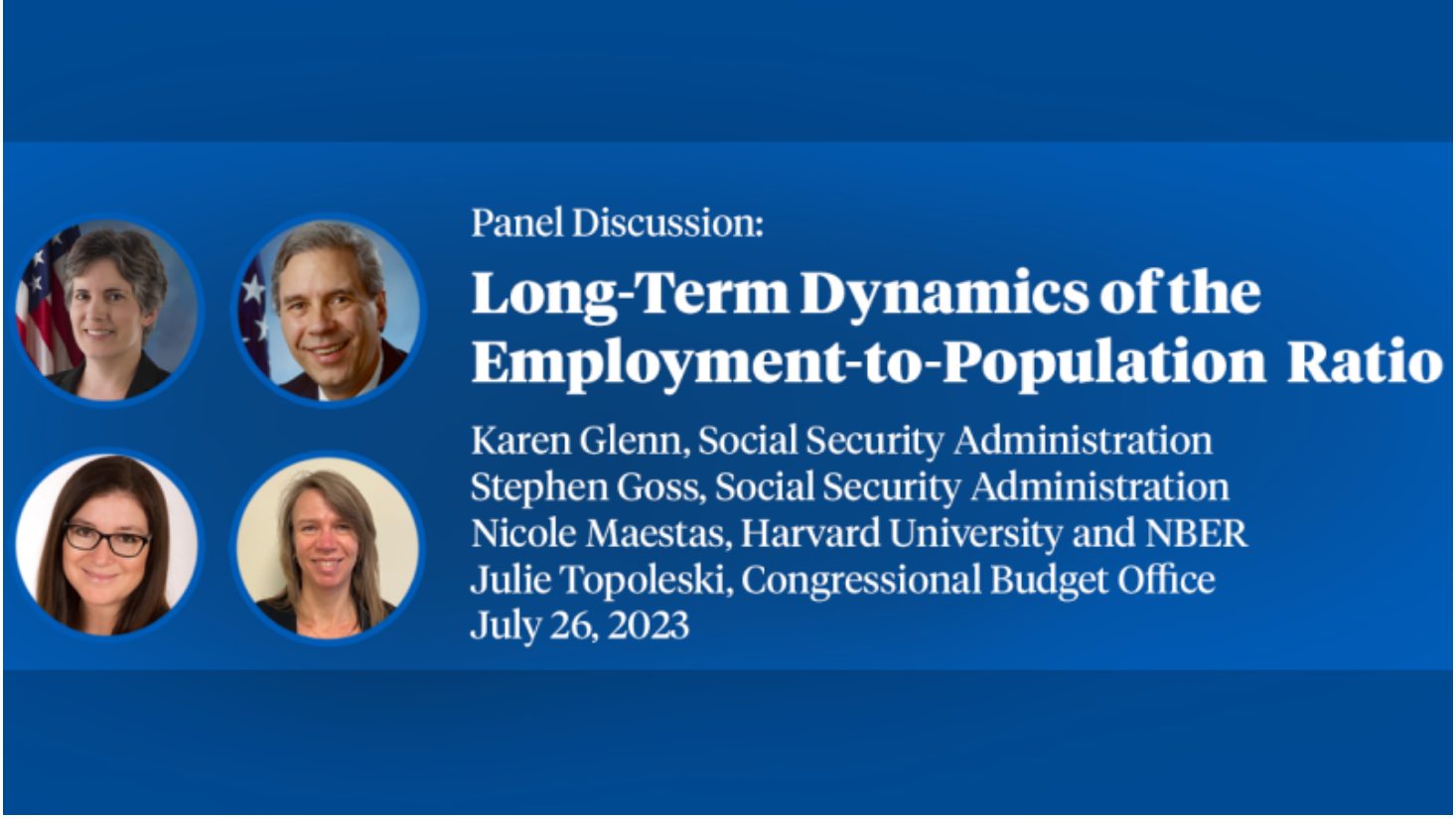

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Contact Us
1050 Massachusetts Avenue
Cambridge, MA 02138
617-868-3900
info@nber.org
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