Comments on
„The Single Currency’s Effects on Eurozone Sectoral Trade: Winners and Losers?“

General remarks:

The paper addresses a topic that has already been on the research agenda of a wide range of studies. Nevertheless, the authors take a less explored perspective, first, at the policy level by looking at the euro effects on various sectors and second, at an econometrical level by employing recent dynamic estimation techniques.

Specific remarks:

Table 1 lists some of the most relevant studies with a sectoral focus.1 While the results are compared to the ones found by Baldwin, Skudelny and Taglioni (2005) and Flam and Nordstrom (2006), the authors do not discuss the analysis by Fernandes (2006). Since Fernandes also uses a system GMM estimator, it would be of high interest to see how and why the results differ.

Since some importance is laid on the sectoral variation of the euro effect, it would be interesting to add hypotheses about why and for which sectors the authors expect a higher (lower) impact of the common currency. The argumentation could be strengthened by the presentation of some stylized facts, to which the authors should later on refer to when discussing the estimation results.

Although innovative, the GMM estimator seems to have drawbacks when it comes to the measurement of the impact of policy changes represented by dummy variables. First differencing or orthogonal deviation transforms have the consequence that the effect is not captured for the entire period. The authors should explain how their results are influenced by this property, possibly also by presenting the results of a standard fixed or random effects estimator.

The authors stress the empirical nature of their study. Nevertheless, they could allow some more space to explain the theoretical underpinnings of the empirical specification adopted.

By introducing importer and exporter fixed effects, the authors hope to proxy the multilateral trade resistance terms as introduced by Anderson and van Wincoop (2003). Their time-variant nature (in AvW modeled as relative price terms) makes it, however, necessary to interact country (or sector) and time effects as explained by Baltagi, Egger and Pfaffermayr (2003). The authors should at least discuss possible the biases introduced by the omission of the time dimension of the AvW price terms as well as the various attempts to resolve the problem.

The specification of the trend variable is not obvious to the reader.

Literature


1 Note, however, that Flam and Nordstrom have a new version of their 2003 paper available.