Comment on

“Exports under the Flicker of the Northern Lights”

General remarks:

The paper investigates Iceland’s export flows to 17 countries on the basis of a gravity equation. Although the specification lacks recent theoretical advances, the article contains two promising features that should be investigated more closely – the sectoral perspective and the way how to deal with zero trade flows.

Specific remarks:

Given the fact that gravity equations have been employed in numerous empirical studies, the focus of this study should shift more to the innovative parts:

First, sector-level gravity-based estimations are less frequently seen and could bear new insights. In addition to industry-specific dummies, however, observable variables should be introduced to examine the sectoral export flows in more detail (What drives them? Why is Iceland more successful in one industry than in other industries?).

Second, the treatment of zero trade flows is currently intensively discussed among trade economists. The author should explain her way of modelling in more detail and discuss it against other methods recently employed in the literature (see e.g. Tenreyro and Santos 2006, Baldwin and di Nino 2006 and Helpman, Melitz and Rubinstein 2007). It would also strengthen the paper if the issue was connected to recent theoretical advances that explain why zeros exist in the trade matrix.

A few smaller points:

- p. 5: Information on trade blocs should be retrieved from a source more recent than Torre and Kelly (1992).
- p. 7/8: Instead of providing three only slightly differing versions of Bergstrand’s (1985) gravity equation, it would be interesting to learn more about the estimation method used.
- p. 10: A log transformation can only be applied to strictly positive values of the dependent variable (the author writes non-negative…)
- In the case of Iceland, actual shipping costs would be a much better proxy for transportation costs than distance.

Literature

Baldwin, R. and Di Nino, V. (2006) Euros and Zeros: The Common Currency Effect on Trade in New Goods, NBER Working Paper, 12673.

Bergstrand, J. (1985) The Gravity Equation in International Trade: Some Microeconomic Foundations and Empirical Evidence, Review of Economics & Statistics, 67(3): 474-81.

Helpman, E., Melitz, M. and Rubinstein, Y. (2007) Trading Partners and Trading Volumes, NBER Working Paper, 12927.

Tenreyro, S. and Santos, J. (2006) The Log of Gravity, Review of Economics and Statistics, 88(4), 641-58.