

Referee Report on

Oleksandr Lugovskyy and Alexandre Skiba (2014). Effect of Distance on Trade under Slope Heterogeneity and Cross-Correlated Effects. Economics Discussion Papers, No 2014-30, Kiel Institute for the World Economy.

<http://www.economics-ejournal.org/economics/discussionpapers/2014-30>

The authors employ an estimation approach that was proposed by Pesaran (2006) to uncover non-linear effects of distance in gravity estimations of trade costs.

First, I should stress that I am not fully able to appreciate the econometric implications of the CCEMG specification that the authors use, but I am taking it that this is a well-established methodology that has been duly scrutinised elsewhere, so I have no comments to offer on it.

The above caveat aside, the paper is well motivated and the presentation is clear. The exercise the authors carry out is rather narrow but well thought out, and the results are interesting, plausible, and worthwhile.

One small point that I was slightly puzzled about is the initial claim that the paper focuses on the endogeneity of transportation costs. Given my limited understanding of the relevant econometric issues and methods, it does not look to me that the authors directly deal with endogeneity; rather, they provide convincing arguments for why endogeneity might give rise to non-linearities, and then focus on the latter in their empirical estimation. While the authors are reasonably upfront about this point, the opening lines of the paper's abstract could convey a misleading impression of what the paper actually does.