Report on “Firms’ export decisions: selection versus trial and error”

1. Main concerns

Although the paper is very likely the first attempt to model a difficult issue, to my opinion it fails to give a satisfactory answer to the main question it addresses: the reconciliation of the two following stylized facts: i) flows of entry and exit to/from export markets are substantial; and ii) entry in export market is gradual, i.e. firms start exporting small quantities and, if they survive, quickly expand their exports.

To my understanding the model neither addresses the issue of exit and it does not pose any testable hypothesis on quantities exported.

Furthermore, the paper is poorly written, needs an English revision and notation is confuse (e.g. firms’ export effort level should always be either $a$ or $\alpha$ but not the two of them).

2. Comments

1. All along the papers, the authors change the way in which they refer to firm’s export effort level what produces great confusion. Sometimes they call it $a$ and another times they call it $\alpha$.

2. The paper aims to add to the literature on self-selection suggesting that, in addition to productivity, other factors such as the firm’s export effort level ($a$) and the confidence that the firm has in the success of the project ($\rho$) may be relevant in firms’ export decision. However, the authors do not consider the direct impact of productivity but their indirect effect through domestic profit. In page 5, the authors say that firms’ normal profits depend on productivity. In page 8, the authors say “a high willingness to export is associated to a higher level of profitability and therefore a higher level of productivity”. It seems that the authors are implicitly assuming that high profits are necessarily associated to high productivity. Nevertheless, it should be considered that high profits could be the result of both high efficiency and/or market power. Therefore, a higher $\Pi_0$ is not necessarily associated to higher productivity.

3. The authors assume “ex-ante costs associated with export project are endogenous”. But, is it realistic to assume that all sunk export costs are engeenous? Very likely sunk costs such as the costs associated to learn about the sanitary or phyto-sanitary restrictions to be met to export to a given country are exogenous sunk costs (like this, there is possible to think about others). Which are the implications of the existence of exogenous sunk costs in your model?

4. The authors assume that firms just use self-financing to cover the expenses related to export projects. However, they do not give any references to empirical works or other theoretical papers backing up such assumption. If firms also resort to debt for financing export projects would your model be still valid? If firms can resort to external financing
then $C$ and $I$ would depend not only on $\Pi_0, a, \rho$ but also on firm’s ability to borrow. Which would the implications for your model?

4. There are other factors omitted in the discussion that could be important determinants of both $C$ and $I$ in your models, as for example the difficulty of the targeted export market (for example geographical or cultural distance).

5. In your model you assume that $C$ is a function of $y, \Pi_0, \rho$ where $\rho$ is the probability that the firm continues the export project. But it could be also the other way round, i.e. $\rho$ could be a function of $C$. If $C$ is quite high, it means that the firm has invested quite a lot of money in the feasibility studies, and this could increase the likelihood of investing in the export project as otherwise the firm losses all the sunk costs in which it has already incurred. Which are the implications of this in your model?

6. What does it mean in the fourth paragraph of page 6 “if we put $F(C, I, \Pi_0, a, \rho = 0)$. Explain where it comes from.

7. You should explain in detail from where equation 5 comes from.

8. About the parametrization of your model. How do choose the values of $a, \rho, \beta, \Pi_0$? Are your results robust to different values?

9. About Figure 3. Understand this figure results quite difficult.
   - To start, the mess with $a$ and $\alpha$ makes understanding difficult.
   - Then, you should specify in the text that high-$a$ is $a_1$ and low-$a$ is $a_2$.
   - Then, you should give an intuition explaining why the range $\Pi_{0,\text{min},a_1} - \Pi_{0,\text{max},a_1}$ is wider than the range $\Pi_{0,\text{min},a_2} - \Pi_{0,\text{max},a_2}$.
   - Further, I do not understand what is going on in the interval $\Pi_{0,\text{min},a_2} - \Pi_{0,\text{min},a_1}$. In this interval, if we compare two firms with the same $\Pi_0$ (that according to your assumptions will proxy for productivity), the firm with the low export effort level ($a_2$) would export while the firms with the high export effort would not do it. Which is the explanation to this result? Is it dependent on your parametrization?