

Solution to Homework 4

The Gravity Equation

ECO-13101 Economía Internacional I (International Trade Theory)*

*Rahul Giri. Contact Address: Centro de Investigacion Economía, Instituto Tecnológico Autónomo de México (ITAM).
E-mail: rahul.giri@itam.mx

Question 1: The Gravity Equation

1. Exercise 1: Imports versus Size

There is a positive relationship between imports and the size of a country (Figure 1). Larger the country the larger its imports.

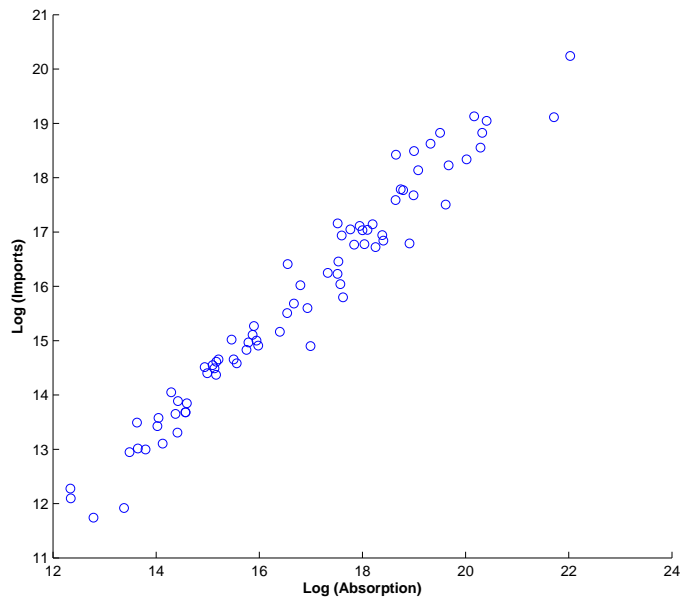


Figure 1: Imports versus Size

2. Exercise 2: Market Share and Size

There is a positive relationship between the size of a country and its share in foreign markets (Figure 2). Bigger countries tend to have larger market shares in other countries.

3. Exercise 3: Distance and Trade Volume

There is an inverse relationship between distance and trade after controlling for size (Figure 3).

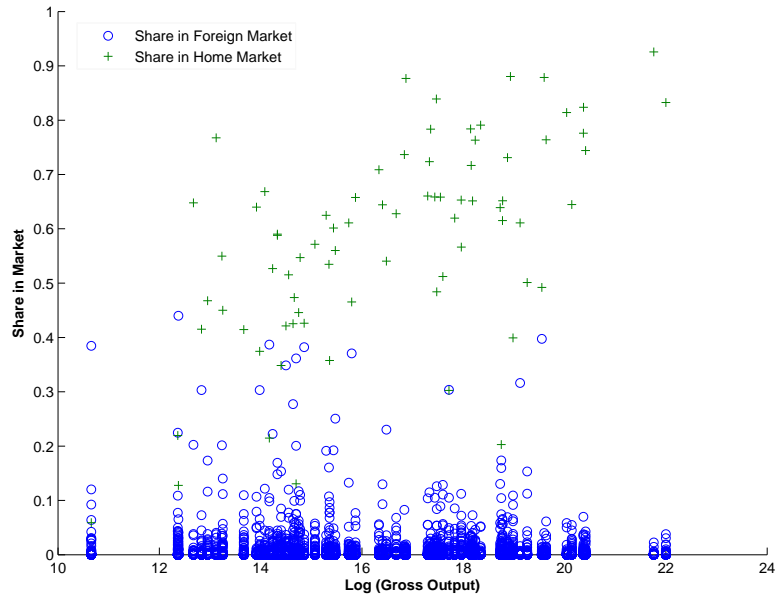


Figure 2: Market Share versus Size

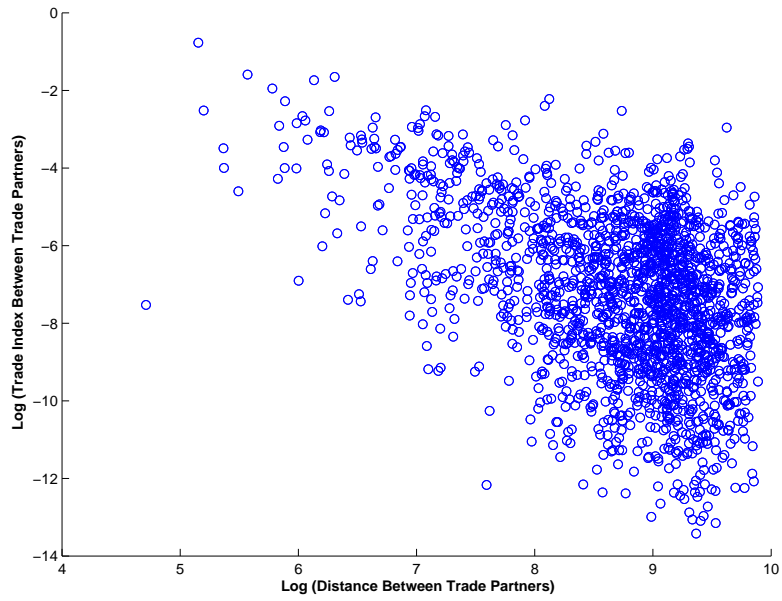


Figure 3: Trade versus Distance