"Heterogeneous Firms: Skilled-Labor Productivity and Export Destinations"
***joint with Irene Brambilla and Yuya Sasaki**

Jorge Balat

Johns Hopkins University

Abstract:

This paper studies a systematic link between the choice of export destinations and technology differences across firms. Our setting is based on three premises: (i) firms differ in the efficiency with which they can utilize skilled labor, (ii) product quality is higher when more skilled workers are used, and (iii) high income countries value quality more. Thus, firms that are more efficient in the use of skilled labor will tend to export to high income destinations.

The contribution of the paper is twofold. First, we show identification and propose a new estimation method of production functions in which productivity parameters are heterogeneous across firms. The identification strategy is based on an extension of the structural control variable approach (Olley and Pakes (1996); Levinsohn and Petrin (2003)) to multi-dimensional incidental parameters. We provide sample counterpart consistent estimators of firm-specific coefficients. Second, we provide an empirical measure of "capability" of quality production and show that it is a determinant of the choice of exports, export destinations, and quality using firm-level data from Chile.