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Institutional Quality and Contract Complexity: The Effect on the Intensive and Extensive Margins of Trade

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ABSTRACT

This contribution aims at analyzing the role of domestic institutions in export decisions along their extensive and intensive margins, supported by an empirical analysis based on customer agency data. A modified version of Melitz (2003) model is developed by admitting cross country differences in the quality of institutions and cross sector differences related to contract complexity. In the presence of high-quality domestic institutions selection conditions are very strict; selling in export market is difficult, but when firms enter export markets their high efficiency allows them to get high revenues. The exporting probability is higher in more complex sectors provided that institutions are able to overcome the inefficiency induced by contract incompleteness.

KEYWORDS institutional quality; trade margins; developing and developed countries

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