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**"The Desire for Quality across Products and Destinations"**

Abstract

Recent theories of international trade have disparate predictions concerning the correlation between a firm level prices and sales. To test these theories, I estimate the correlation between firm prices and sales within a market. I do this for all six-digit products and destination countries to which Denmark exports between 1999-2006. I find that most Danish exports are to markets in which the price is positively correlated with sales, that these correlations are significantly different across destinations for a given product, and that most of them constant across years. While some of the existing theories perform better than others at predicting these patterns, none of them can reconcile the variation across destinations. To fully explain the patterns, I introduce a model in which the desire for high quality goods over low cost substitutes differs across countries and products. Even when controlling for endogenous selection, I find that countries with higher incomes desire more quality.

Paper will be available at the seminar.