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The Theory of Horizontal FDI and the Gravity Equation

By Tobias Maurer

GRIN Verlag Nov 2015, 2015. Taschenbuch. Book Condition: Neu. 210x148x2 mm. This item is printed on demand - Print on Demand Neuware - Seminar paper from the year 2015 in the subject Economics - Foreign Trade Theory, Trade Policy, grade: 2,0, University of Hohenheim (Institute of Economics), language: English, abstract: The gravity equation is a common and often used empirical technique to analyse bilateral trade. The relationship between the theoretical background of multinational firms and findings from the empirical research with the gravity equation, however, had not been proven to be strong. This results from the fact that gravity equations which try to explain foreign affiliate sales are ad hoc and therefore the coefficients estimated by them are hard to interpret. That is why Kleinert and Toubal (2010), from now on referred to as K&T, further elaborate the theoretical origin of the structural gravity equation by Redding and Venables (2003) which they use to analyse exports and FDI. In their paper they focus on three different theoretical models. Two models on horizontal FDI by Brainard (1997) and by Helpman et al. (2004) and one on vertical FDI by Venables (1999). After the theoretical part they try to apply the gravity...



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