

The de Melo-Robinson Model
*National product differentiation
as a basis for trade*

The de Melo - Robinson Model

Summary:

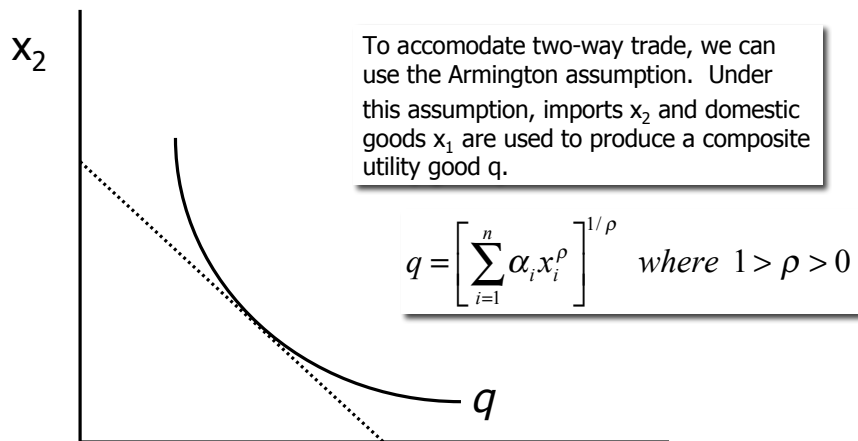
- trade with production
- non-tradables sector
- real exchange rate effects

The de Melo - Robinson Model

Assumptions:

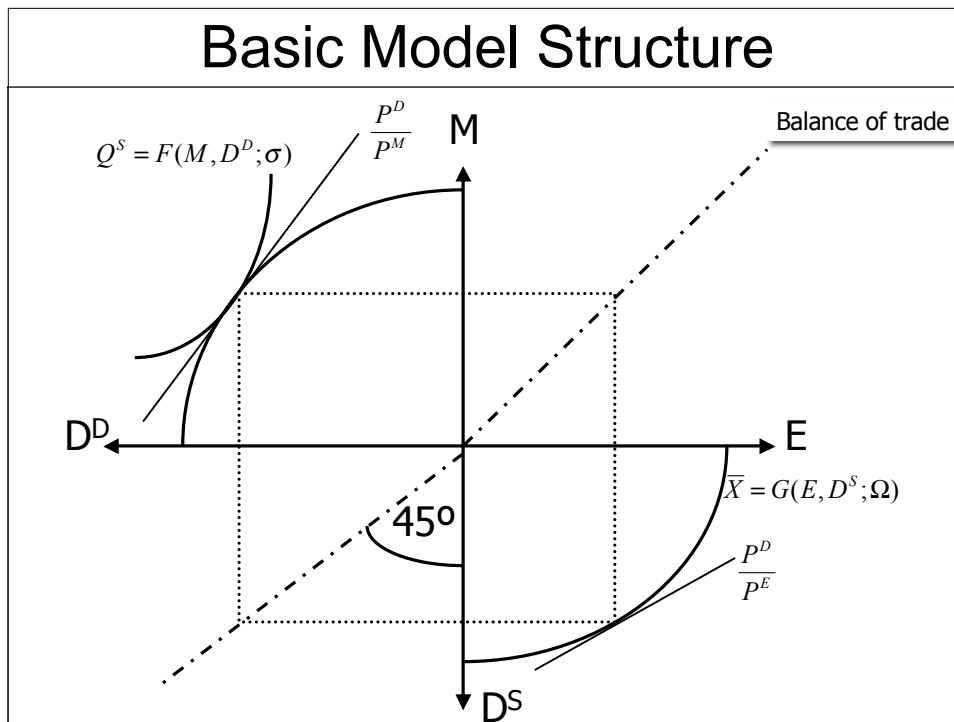
- convex technology set defined over 2 goods
- one tradable sector, one non-tradable
- preferences defined over the domestic (non-tradable) and an import (Armington preferences)

Armington Preferences



With more import sources, we simply boost the indexing of n to cover all import sources.

Basic Model Structure



The DMR Model and Dutch Disease

- Netherlands finds lots of gas and oil
- Huge foreign currency inflow as a result
- Traditional exports collapse (manufacturing firms close down, Fokker goes bankrupt)
- Real exchange rate takes off
 - WHY?????

Summary of the DMR Model

- We can explain the Dutch disease: resource booms can cause de-industrialization in this model
- We get a link between net resource inflows and the real exchange rate.
- In a multi-product, multi-country setting, the Armington structure has introduced an ability to accommodate two-way trade within a sector while having HO type production structure. (CGE models)
- We may get more or less trade as export prices go up. Income effects enter the picture
- The degree of substitution between imports and domestic goods is important for equilibrium responses on the real side of the economy to financial inflows and outflows (something we see in open-economy macro models)

Trade With Oligopoly