

# A Solution to the Melitz-Trefler Puzzle

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**Abstract:** The empirical finding by Trefler (2004, AER) and others that industrial productivity increases more strongly in liberalized industries than in non-liberalized industries has been widely accepted as evidence for the Melitz (2003, Econometrica) model. But it is actually evidence against the Melitz model. Segerstrom and Sugita (2015, JEEA) showed that under very general assumptions, the multi-industry Melitz model predicts that productivity increases more strongly in non-liberalized industries than in liberalized industries. This disconnect between theory and evidence we call the Melitz-Trefler Puzzle. This paper presents a solution to the Melitz-Trefler puzzle, a new model consistent with the Trefler finding.

**JEL classification:** F12, F13.

**Keywords:** Trade liberalization, firm heterogeneity, industrial productivity.

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