# Trade Costs and Different Margins of Trade

Trang Tran*,†

The 82nd Annual Meeting of
The Japan Society of International Economics
Meiji University
Tokyo, Japan
October 14-15, 2023

**Abstract**

Producers must make daily decisions on how much input to stock, how much to produce, and which buyers to sell to. This paper shows how these decisions are affected by different types of trade costs: namely iceberg trade costs and shipment costs. The new insight of this study is to consider the role of buyers' heterogeneity in these decisions. The theoretical model shows that iceberg trade costs affect trade directly through sales and indirectly through shipment frequency, while shipment cost effects are only through adjusting shipment frequency. These predictions are tested using the Bill of Lading data set. The results highlight the importance of buyer margins. While the effects of these trade barriers on trade volume are mostly from an increase in shipment frequency rather than shipment size, more than half of an increase in shipment frequency is from an increase in the number of buyers.

*JEL Classification: F1, F2*
*Keywords: Shipment Frequency, Shipment Size, Buyer Heterogeneity*

*University of Tokyo, Engineering Building 3-204, 7-3-1 Hongo, Bunkyo-ku, Tokyo

†This paper draws on the third chapter of the dissertation submitted to the Graduate School of Economics, Hitotsubashi University, in partial fulfillment of the requirements for the degree of Doctor of Philosophy in Economics. I thank Professor Yoichi Sugita, Professor Jota Ishikawa, and Professor Eichi Tomiura for their insightful advice.