



# Seminarios de Macroeconomía y Finanzas

## Financial Development and the Effects of Trade Liberalization

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Sala Roja, Agustinas 1180, piso 3

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Los Seminarios de Macroeconomía y Finanzas tienen como objetivo difundir investigación académica y aplicada de investigaciones del Banco y externos.

### Abstract

We investigate the extent to which frictions in financial markets affect the gains from trade liberalization. We study a small open economy populated with entrepreneurs heterogeneous in productivity and net worth who can trade internationally and are subject to financing constraints. We calibrate the model to match key features of Colombian plant-level data and use it to quantify the role of credit frictions in shaping the economy's response to trade liberalization. We find that frictions in financial markets slow down the response of capital and output in the aftermath of trade liberalization; in contrast, the dynamics of exports adjustment are largely independent of financial development. We document evidence consistent with these findings for the Colombian trade liberalization in the early 1990s