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Title: Globalization and Synchronization of Innovation Activities

Abstract:

We proposed and analyzed a two-country intra-industry model of endogenous innovation fluctuations. In autarky, innovation fluctuations of the two countries are decoupled. As trade cost falls and intra-industry trade rise, they become more synchronized. Furthermore, synchronization occurs faster with more unequal country sizes. This result suggests that adding endogenous sources of fluctuations might be a promising route to explaining why countries that trade more with each other have more synchronized business cycles, one of the empirical regularities that the standard international RBC model has difficulty explaining.