Gravity models of trade: unobserved heterogeneity and endogeneity*

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Abstract

We consider the estimation of the usual Gravity model of trade, which involves flows of trade, say exports, from country i to country j in time period t. We suggest an easy-to-impliment *generalised method of moments* estimator that avoids the issues associated with the usual *fixed effects* treatment of the unobserved heterogeneity in this type of models and at the same time provides consistent parameter estimates in the face of potentially endogenous covariates.

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Keywords: Gravity model, unobserved heterogeneity, Generealised Method of Moments.

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