

1 Sensitivity Analysis

1.1 Changing the correlation of shocks

$corr(\varepsilon^1, \varepsilon^2) = 0.25$.

variable	Benchmark ($\eta = 1$)			Vert. Spec. ($\eta = .5$)		
	trade/GDP			trade/GDP		
	3%	9%	15%	3%	9%	15%
$corr(\mathcal{Y}^1, \mathcal{Y}^2)$	.25	.26	.28	.25	.25	.26
$corr(\mathcal{A}^1, \mathcal{A}^2)$	.24	.24	.25	.24	.24	.23
$corr(L^1, L^2)$	.26	.29	.34	.26	.28	.30
$corr(\mathcal{X}^1, \mathcal{X}^2)$	.26	.28	.33	.25	.27	.29
$corr(\mathcal{C}^1, \mathcal{C}^2)$	.25	.27	.34	.25	.26	.27
$corr(\tilde{Y}^1, \tilde{Y}^2)$	.26	.29	.34	.26	.28	.31
$corr(\tilde{A}^1, \tilde{A}^2)$	.26	.29	.34	.26	.28	.31
$(\lambda_1^{ij}, \lambda_2^{ij})$	(-, .10)	(-, .30)	(-, .50)	(.04, .04)	(.11, .11)	(.19, .19)
VS index (%)	-	-	-	.26	.79	1.32

Table 1: Model business cycle correlations with correlated shocks.

1.2 Changing the elasticity of substitution

1. $\sigma = 3$ (goods are more substitutable)

variable	Vert. Spec. ($\eta = .5$)		
	trade/GDP		
	3%	9%	15%
$corr(\mathcal{Y}^1, \mathcal{Y}^2)$	.01	.00	.00
$corr(\mathcal{A}^1, \mathcal{A}^2)$	.00	-.02	-.03
$corr(L^1, L^2)$	.02	.04	.07
$corr(\mathcal{X}^1, \mathcal{X}^2)$	.01	.03	.06
$corr(\mathcal{C}^1, \mathcal{C}^2)$	.00	-.01	.00
$corr(\tilde{Y}^1, \tilde{Y}^2)$	.02	.04	.07
$corr(\tilde{A}^1, \tilde{A}^2)$	.02	.04	.07
$(\lambda_1^{ij}, \lambda_2^{ij})$	(.04, .04)	(.11, .11)	(.19, .19)
VS index (%)	.26	.79	1.32

Table 2: Model business cycle correlations, high sigma.

2. $\sigma = 0.5$ (goods are less substitutable)

variable	Vert. Spec. ($\eta = .5$)		
	trade/GDP		
	3%	9%	15%
$corr(\mathcal{Y}^1, \mathcal{Y}^2)$	.01	.02	.03
$corr(\mathcal{A}^1, \mathcal{A}^2)$	.01	.01	.01
$corr(L^1, L^2)$	.02	.04	.07
$corr(\mathcal{X}^1, \mathcal{X}^2)$	.02	.04	.06
$corr(\mathcal{C}^1, \mathcal{C}^2)$	.02	.04	.06
$corr(\tilde{Y}^1, \tilde{Y}^2)$	.02	.04	.07
$corr(\tilde{A}^1, \tilde{A}^2)$	.02	.04	.07
$(\lambda_1^{ij}, \lambda_2^{ij})$	(.04, .04)	(.11, .11)	(.19, .19)
VS index (%)	.26	.79	1.32

Table 3: Model business cycle correlations, low sigma.

1.3 Changing θ

1. $\theta = 2$ (goods are more heterogeneous in technology - lower trade elasticity)

variable	Vert. Spec. ($\eta = .5$)		
	trade/GDP		
	3%	9%	15%
$corr(\mathcal{Y}^1, \mathcal{Y}^2)$	.01	.02	.02
$corr(\mathcal{A}^1, \mathcal{A}^2)$	.00	-.01	-.01
$corr(L^1, L^2)$	.03	.06	.10
$corr(\mathcal{X}^1, \mathcal{X}^2)$	.02	.05	.09
$corr(\mathcal{C}^1, \mathcal{C}^2)$	.01	.03	.06
$corr(\tilde{Y}^1, \tilde{Y}^2)$	.03	.06	.10
$corr(\tilde{A}^1, \tilde{A}^2)$	.03	.06	.11
$(\lambda_1^{ij}, \lambda_2^{ij})$	(.04, .04)	(.11, .11)	(.19, .19)
VS index (%)	.26	.79	1.32

Table 4: Model business cycle correlations, low theta.

2. $\theta = 8$ (goods are less heterogeneous in technology - higher trade elasticity)

variable	Vert. Spec. ($\eta = .5$)		
	trade/GDP		
	3%	9%	15%
$corr(\mathcal{Y}^1, \mathcal{Y}^2)$	.01	.01	.01
$corr(\mathcal{A}^1, \mathcal{A}^2)$	.01	.00	.00
$corr(L^1, L^2)$	.02	.03	.04
$corr(\mathcal{X}^1, \mathcal{X}^2)$	.01	.02	.03
$corr(\mathcal{C}^1, \mathcal{C}^2)$	.01	.01	.01
$corr(\tilde{Y}^1, \tilde{Y}^2)$	.02	.03	.04
$corr(\tilde{A}^1, \tilde{A}^2)$	.02	.03	.04
$(\lambda_1^{ij}, \lambda_2^{ij})$	(.04, .04)	(.11, .11)	(.19, .19)
VS index (%)	.26	.79	1.32

Table 5: Model business cycle correlations, high theta.