

Missing Risk Sharing from International Transmission through Product Quality and Variety

**Masashige Hamano
Waseda University (Japan)**

Abstract

This paper explores the role played by product quality and variety in international consumption risk sharing. Turnover in product quality and variety can cause a wealth effect. A reasonable Kollmann-Backus-Smith (KBS) correlation is driven by the Harrod-Balassa-Samuelson mechanism based on heterogeneous firms. Using panel data, we test the prediction of the theoretical model and find a supportive evidence for a resolution to the Kollmann-Backus-Smith puzzle.