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## Idea Flows, Economic Growth, and Trade

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We provide a theoretical description of a process that is capable of generating growth and income convergence among economies, and where freer trade has persistent, positive effects on productivity, beyond the standard efficiency gains due to reallocation effects. We add to a standard Ricardian model a theory of endogenous growth where the engine of growth is the flow of ideas. Ideas are assumed to diffuse by random meetings where people get new ideas by learning from the people they do business with or compete with. Trade then has a selection effect of putting domestic producers in contact with the most efficient foreign and domestic producers. We analyze the way that trade in goods, and impediments to it, affect this diffusion. We find that exclusion of a country from trade reduces productivity growth, with large long-term effects. Smaller trade costs have moderate effects on productivity.



This paper is available as [PDF \(456 K\)](#) or [via email](#).

An [online appendix](#) is available for this publication.

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