



Figure 8. US manufacturing sales to value-added and share of manufacturing in GDP

In long hand we have

$$\text{Offshoring growth} = \text{Growth of Imports/GDP} - \text{Growth of mfg sales/value-added} - \text{Growth of mfg/GDP}$$

Figures 8 and 9 plot the component series in obtaining our time series for q . We see that the incidence of offshoring follows the tell-tale procyclical pattern around the recent financial crisis, following the patterns of fluctuating financial conditions.

4 Closing the Model with Credit Supply

Up to now, we have treated the borrowing rate r as given. We now close the model by building a financial sector and modeling the credit supply by banks. The borrowing rate r is then determined as the rate that clears the credit market.

Before describing the model of credit supply in more detail, it is useful to note the salient features of banking sector credit supply in order that our model may capture the financial frictions more faithfully.