

日本経済学会 2005 年度秋季大会（中央大学）

9 月 17 日（土）午前の部 タイミングと競争戦略（会場 A-3）

Endogenous Timing of Export Subsidies and Import Tariff in the Three-Country Model*

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August 25, 2005

Abstract

The purpose of this paper is to examine the endogenous timing of trade policies in the three-country model where two identical exporting countries give export subsidies and one importing country imposes an import tariff. We compare world welfare level and each country's welfare level respectively in each possible policy timing. Our main conclusions are as follows: (i) in equilibrium, the importing country imposes an import tariff first, and both exporting countries give export subsidies simultaneously, (ii) policy intervention does not improve world welfare compared with free trade level, (iii) when at least two firms operate in each of the exporting countries, world welfare is maximized with free trade.

Key Words: Endogenous Timing, Export Subsidy, Import Tariff, Free Trade

JEL Classification Numbers: L13; F13

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