Mixed Duopoly and Strategic Trade Policy

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Abstract

This paper examines a three-person international mixed model. First, a social-welfare-maximizing domestic government announces a tariff level per unit of output imposed on a profit-maximizing foreign private firm. Second, the foreign private firm decides whether or not to enter the market. Third, a social-welfare-maximizing domestic public firm decides whether or not to adopt either a lifetime employment contract or a wage-rise contract as a strategic commitment. Fourth, if the foreign private firm enters, each firm independently chooses its actual output, while if the foreign private firm does not enter, the public firm prevails as a monopoly. The paper shows the equilibrium of the mixed model.

Keywords: Mixed model, Tariff, Foreign private firm, Lifetime employment contract, Wage-rise contract

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