On Strategic Trade Policies in the Three-Country Model: Endogenous Timing and its Economic Interpretation*

by

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Abstract

This paper explains why a government with the lesser number of firms chooses its trade policy first and provides a subsidy to home firms, whereas a government with the larger number of firms moves second and imposes a tax on domestic firms in the three-country model. This paper also extends the Brander and Spencer (1985) result that the unilateral intervention equilibrium is replicated by the Stackelberg duopoly in an economy with multiple firms in each country. This replication enables us to show that bilateral sequential intervention induces a more concentrated market structure.

Keywords: Three-country model, endogenous timing, number of firms
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