

International Advertising and Product Differentiation ^{*}

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Abstract

This paper examines the role of product differentiation in international advertising. I analyze the optimal trade policy for importing country that can impose a tariff or a subsidy on imports. I show that optimal trade policy changes depending on the degree of product differentiation between home and foreign. Importing country should impose a tax on imports when goods are complementary and subsidize imports when goods are substitute. And I establish that the importing country's national welfare after policy implementation becomes highest when both goods are independent each other.

JEL Classification: F12; F13; L13

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