Consumer-hurting competition in an international upstream market

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Abstract

In standard oligopoly theory, an increase in the number of firms makes market competition keener, decreases the product price, and increases consumer surplus. In practice, competition authorities and practitioners cherish competition, and have the clear-cut belief that "competition enhances consumer welfare." However, we offer a different perspective on the effect of competition on consumer welfare. In vertically related markets with an import tariff, we show that an increase in the number of upstream firms can reduce the consumer surplus and total surplus of the final-good importing country. Upstream competition may harm consumers.

Key words: Upstream competition; Import tariff; Consumer surplus; Vertically related markets

JEL classification: F12; F13; L13

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