

A Two-Country Model of Oligopolistic Trade with External Economies of Scale

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Abstract

Constructing a two-country oligopolistic model where each oligopolist's production is subject to external economies of scale, this paper characterizes the trading equilibria, and explores trade patterns and gains from trade in each possible equilibrium. Whether a country exports the increasing returns good and gains from trade highly depends on the relative magnitude of increasing returns to the number of oligopolists, i.e., market power in the oligopolistic sector. It is carefully studied how these two fundamentals interactively determine the equilibrium trade pattern and the distribution of trade gains.