Optimal Export Policy in a Vertically Related Industry

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Abstract

This paper analyzes how optimal export policies are affected by introducing an imperfectly competitive intermediate good into a Bertrand duopoly model with product differentiation where a home and a foreign final-good firm export to a third-country market. It is shown that when the home and foreign markets for the intermediate good are segmented, the optimal export policy is a tax on the final good. In contrast, under integrated markets, the optimal export intervention is a subsidy. Whether bilateral export intervention is welfare-improving in comparison with free trade depends on the degree of product differentiation between the home and foreign final goods.

Keywords: Intermediate goods, Export taxes and subsidies, Segmented and Integrated markets.

JEL classification: F12, F13, L13.

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