Chapter 11 Strategic Trade Policy

Question 11.4

Chapter 11 describes two different oligopoly situations.

11.4A What is the main difference between a Cournot oligopoly and a Bertrand oligopoly?

11.4B Comparing figures 11.4 and 11.5 of the book it is clear that the reaction curve under Cournot competition is negatively sloped, while under Bertrand competition it is positively sloped. How do you explain this difference?

11.4C When comparing figures 11.4 and 11.5 if is also clear that the iso-profit curve of firm A is turned around 180 degrees. How do you explain this difference?

Question 11.5

Japan, South Korea, and Taiwan are regarded as primary examples of countries that have derived great benefits from targeting the development of specific industries. From the 1950s until the 1980s strategic trade policy by the Japanese government was accompanied by fast growth of the Japanese economy. The same applied for South Korea and Taiwan from the 1960s until the 1980s. Search the internet for information of the industrial policy of either Japan, South Korea or Taiwan. Do most serious researchers think that these Asian countries gained from strategic trade policy?

Question 11.6

The simulation file of question 11.6 allows you to experiment with the Brander-Spencer model (figure 11.4 in the main text). Assume that firm A and firm B are Airbus and Boeing selling their aircraft to a third market, Southeast Asia. The US government contemplates giving an export subsidy to Boeing to improve its competitive position in Southeast Asia.

11.6A What happens to the output and profit levels of Airbus and Boeing when the marginal costs

of Boeing decrease? What happens to the output and profit levels if you increase the subsidy to Boeing by an equal amount, starting from the same initial situation? Compare both results and explain your observations.

11.6B Fill in the table below.

Subsidy firm B	0	1	2	3	4	5	6	7	8
Profit firm B									
Total subsidy B									

11.6C At which subsidy level is the Brander-Spencer equilibrium reached? Explain.

11.6D What will the European Commission think of the imposition of an optimal subsidy by the US government?

11.6E What is the optimal subsidy level the European Commission could impose in response to the US subsidy?

11.6F Compare the situation of no subsidies with the situation in which both governments have imposed their optimal subsidies. Did the policy of giving subsidies lead to higher welfare in the US and the EU?

11.6G What do consumers in the Southeast Asian market think of the subsidies by both governments? Explain.

Question 11.7

Airbus and Boeing could also be in Bertrand competition on the Southeast Asian market. The simulation file of question 11.7 allows you to experiment with the Eaton-Grossman model from the main text (figure 11.5). Again the US government considers helping Boeing to sell planes in Southeast Asia.

11.7A What happens to the output and profit levels of Airbus and Boeing when the marginal costs

of Boeing increase? What happens to the price and profit levels if you increase the export tax of Boeing by an equal amount, starting from the same initial situation? Compare both results and explain your observations.

11.7B Fill in the table below.

Tax firm B	0	1	2	3	4	5	6	7	8
Profit firm B									
Total tax B									

11.7C At which tax level is the Eaton-Grossman equilibrium reached?

11.7D Do Airbus, Boeing, the European Commission, the US government and Southeast Asian consumers prefer the Eaton-Grossman equilibrium?

11.7E What is the optimal response of the European Commission to the introduction of the US export tax? What is again the optimal of the US government to the action of the European Commission? Can this go on forever?