

Tariff Settings under Incomplete Information and Lobbying as Signals*

Katsuzo Yamamoto [†]

Graduate School of Economics, Kobe University

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Abstract

This paper considers the effects of firms' lobbying activities on the domestic government's tariff settings under the situation where there exists asymmetric information about the competitiveness of domestic or foreign firms between firms and the government. Under the existence of asymmetric information, firms' lobbying activities play a role of signals about their private information for the government. As a result, domestic firms pay more contributions and can make the domestic government set higher tariff levels, if domestic or foreign firms' marginal costs are lower. Additionally, we can show that the amount of contributions from domestic firms under incomplete information compared to that under complete information depends on the government's bargaining power in their lobbying negotiation.

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Key Words: Lobbying, Trade Policy, Incomplete Information

*All errors are mine.

[†]Corresponding address: Graduate school of Economics, Kobe University, 2-1, Rokkodai-cho, Nada-ku Kobe, JAPAN 657-8501. Tel: +78-803-7247. Fax: +78-803-6877. E-mail: 033e007e@stu.kobe-u.ac.jp