

The closed-loop effects of trade liberalization on losses from trade

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Abstract

Formulating a differential game model of renewable resource oligopoly, this paper proves that trade necessarily lowers welfare in the feedback Nash equilibrium. This result is sharply contrasting to the static one where the opening of trade is gainful if the number of Foreign firms is much larger than that of Home firms. It is discussed that the closed-loop effects of feedback strategies cause this losses-from trade proposition.

Keywords: dynamic game, oligopoly, feedback Nash equilibrium, losses from trade.

JEL classification: C73, F12.

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