

On the Price-Lowering Protection

Hajime Takatsuka*

Graduate School of Management, Kagawa University

Dao-Zhi Zeng[†]

Graduate School of Information Sciences, Tohoku University

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Abstract

We reexamine the price-lowering-protection (PLP) effect firstly shown in Venables (1987). Specifically, we explicitly consider factor price changes via general equilibrium by use of a simple footloose capital model. As a result, we find that the elasticity of substitution between varieties is a key parameter. If it is small enough, the PLP effect emerges. However, the PLP effect disappears if the parameter is at the realistic level found in empirical studies.

Key words: Unilateral trade policy, Price-lowering protection, Wage inequality.

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*Corresponding author. E-mail: takatsuka[at]gsm.kagawa-u.ac.jp

[†]E-mail: zeng[at]se.is.tohoku.ac.jp