Profitable Parallel Trade, Optimal Tariff and Consumer Welfare

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Draft: April 15, 2015

Abstract

This paper examines the role of government policy in parallel trade decision. We find that with the positive optimal tariff, the equilibrium profit of manufacture is higher under parallel trade than under no parallel trade, and consumer surplus of country A is less than no parallel trade. if $1 \leq \lambda \leq \lambda^* = \frac{1}{5c}(-3 + 2a + 6c)$. Furthermore, for the consumer of country B, whether consumer surplus under parallel trade is larger than (equal to or less than) no parallel trade hinging on the parametric range of λ^*, the degree of productivity difference between domestic and foreign firms.

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