

When Government Misleads US: Sending Misinformation as Protectionist Devices*

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Abstract

In this paper, we examine the incentive of the home *biased* government to mislead home consumers by sending misinformation. We find that when the home government places more weight on the profit of the home firm in its objective function than on the consumer surplus, it necessarily benefits from a small amount of positive (negative) misinformation on the home (foreign) product. On the other hand, when the government considers that the consumer surplus is important, it may benefit from other types of misinformation, which depend on the difference in marginal production costs of both home and foreign firms. We also find that the choice of types of misinformation by the home government is incorrect in terms of world welfare maximization irrespective of the types of the home government. Moreover, we demonstrate that the home government is likely to increase the amount of misinformation as trade is liberalized.

Keywords: Strategic misleading, misinformation, non-tariff trade policies.

JEL Code: F12, L15.

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