

Export Subsidies and Timing of Decision-Making*

—An Extension to the Sequential-Move Game

of Brander and Spencer (1985, JIE) Model—

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Abstract

This paper examines how the timing of decision-making affects the strategic trade policy. In this paper, I analyze the relationship between the different timing of the decision-making by exporting firms and their subsidizing governments and its impact on the export subsidy. The paper aims to extend the analysis by Brander and Spencer (1985), which is one of the seminar papers on the strategic trade policy, to the Stackelberg competition and the sequential-move decision on the subsidy choice by governments. I show some main results as follows: First, when the governments decide the export subsidies simultaneously in advance under the following Stackelberg quantity competition, the original leader firm produces as if it is the follower. Different from the Cournot model, under the Stackelberg model, the subsidy policy by the government that can subsidize the leader firm does not work effectively. Second, under the sequential-move game in which the government that can subsidize the leader firm decides its subsidy level at first, the profit of the leader firm is less than that of the follower in the Stackelberg model, although the first-mover advantage of the government is maintained. The result insists that the timing of decision-making affects the effect on the export subsidy policy significantly.

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