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Ranking the Optimum tariff and the Maximum Revenue Tariff in Vertically Related Markets

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Abstract

This paper firstly shows that in a vertically related industry with either domestic upstream monopolist or foreign upstream monopolist, when the upstream firm adopts uniform input pricing, the optimum-welfare tariff is higher than the maximum-revenue tariff, if the number of foreign competitors is sufficiently large. Secondly, when domestic upstream monopolist adopts discriminatory input pricing, the maximum-revenue tariff is higher than the optimum-welfare tariff. Thirdly, when foreign upstream monopolist adopts discriminatory input pricing, the optimum-welfare tariff will exceed the maximum-revenue tariff if the sizes of domestic and foreign firms become more unequally distributed.

Keywords: input pricing, vertical structure, tariff ranking

JEL classifications: F13, H21, L13

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