

Accepted Manuscript

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PII: S0022-1996(17)30116-2
DOI: doi:[10.1016/j.jinteco.2017.09.001](https://doi.org/10.1016/j.jinteco.2017.09.001)
Reference: INEC 3081

To appear in: *Journal of International Economics*

Received date: 9 July 2016
Revised date: 11 September 2017
Accepted date: 11 September 2017

Please cite this article as: Parenti, Mathieu, Large and small firms in a global market: David vs. Goliath, *Journal of International Economics* (2017), doi:[10.1016/j.jinteco.2017.09.001](https://doi.org/10.1016/j.jinteco.2017.09.001)

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Mathieu Parenti[†]

This version: September 2017

Abstract

This paper studies the impact of trade liberalization when large and small firms coexist in the same market. I develop a model of imperfect competition where a few oligopolistic firms coexist with a monopolistically competitive fringe. The former have a direct impact on the industry average price level, which depends on the breadth of their product scope. Oligopolists produce higher output per worker, charge higher markups, but also sell at higher prices than monopolistic single-product firms. Under linear demand, trade liberalization triggers the exit of small firms and the entry of foreign large firms, leading to more product variety but also to a higher average price. For a broad class of demand functions, the entry of an oligopolist induced by trade liberalization has a negative impact on consumer surplus. Producer surplus rises, but the total effect on welfare is ambiguous.

JEL Classifications: D4, L10, F11

Keywords: Monopolistic Competition, Oligopolistic Market Structure, Multi-product firms, International Trade.

*I am very grateful to Lionel Fontagné, Peter Neary and Jacques Thisse for many challenging interactions on this topic. I would also like to thank Aya Ahmed, Claude d'Aspremont, Kristian Behrens, Paola Conconi, Arnaud Costinot, Mathieu Couttenier, Meredith Crowley, Matthieu Crozet, Ron Davies, Don Davis, Swati Dhingra, Francesco Di Comite, Jonathan Dingle, Martin Hellwig, Gianmarco Ottaviano, Jean Imbs, Sergey Kokovin, Sebastien Krautheim, Helene Latzer, Florian Mayneris, Julien Martin, Thierry Mayer, Joan Monras, John Morrow, Volker Nocke, Vincent Rebeyrol, Nicolas Roux, Nicolas Schmitt, Nicholas Schutz, Farid Toubal, Federico Trionfetti, Thierry Verdier, Helene Windish, Stephen Yeaple as well as two anonymous referees for their helpful comments and suggestions.

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