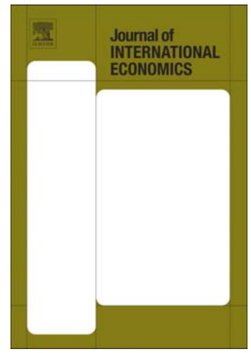

Large and small firms in a global market: David vs. Goliath

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Large and small firms in a global market: David vs. Goliath*

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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.

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