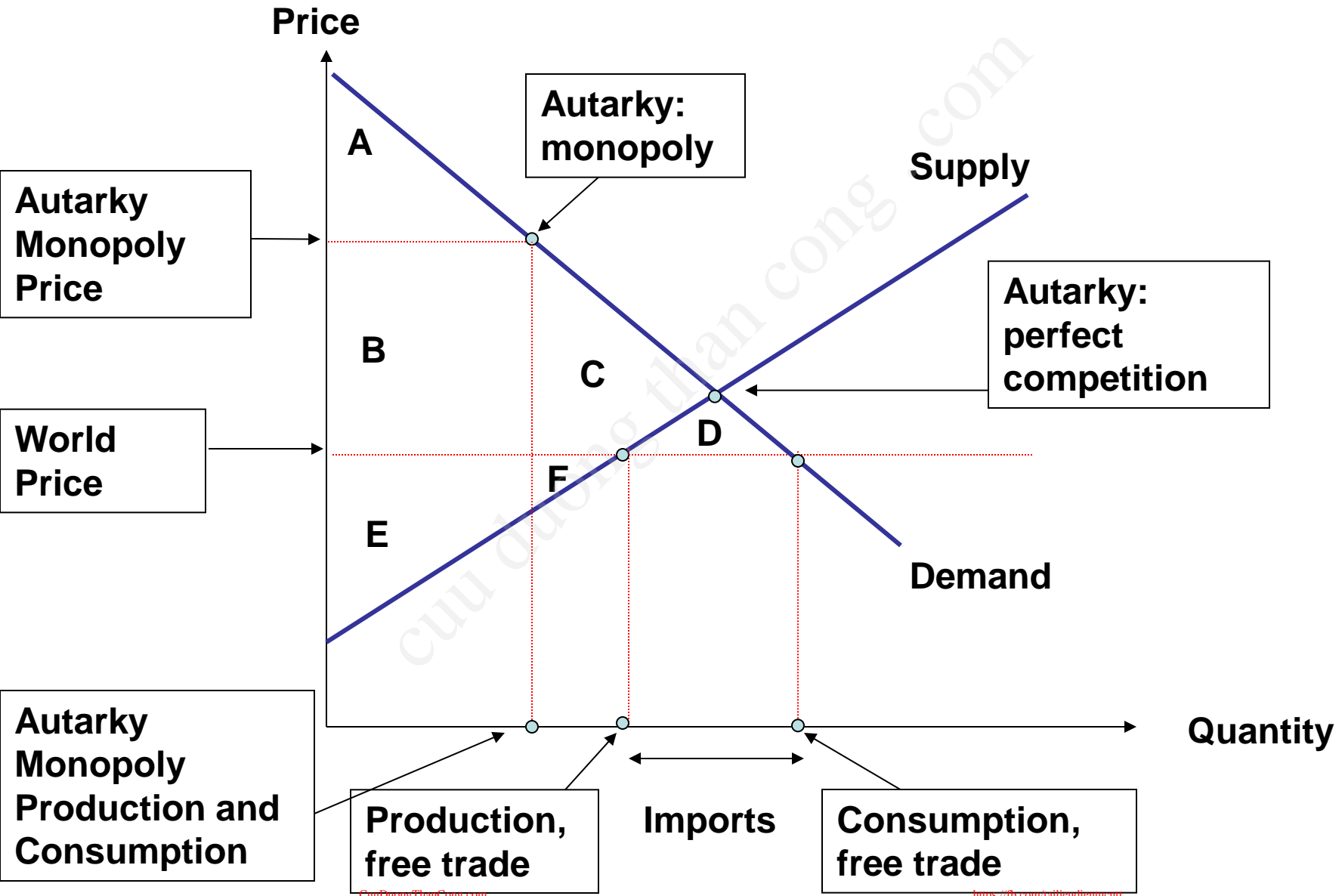


# Imperfect Competition and Trade

# Pro-Competitive Gains From Trade

- A small country will gain from trade even if it has imperfect competition.
- In fact, it would gain *more* from trade than an otherwise identical country that has perfect competition.
- This is because an imperfectly competitive economy will not only enjoy the familiar *gains from exchange* and *gains from specialization*, it will also enjoy the so-called *pro-competitive gains* from trade when producers in its imperfectly competitive markets are exposed to competition from foreign producers

The market is a monopoly during autarky.  
Free trade ends the monopoly by introducing foreign competition.



# Trade With Pre-existing Monopoly—Welfare

	Autarky	Free Trade
Consumer Surplus	A	ABCD
Producer Surplus	BE	EF
Total Surplus	ABE	AB <b>CDEF</b>

The benefit from trade is C, D and F. F is the pure benefit from trade. C and D are due to the increase in competition as a result of trade.

# Free Trade With Monopoly in Place

- If monopoly (or any other form of market imperfection) already exists during autarky, opening up a “large” economy to free trade *may* make matters worse.