

Standard Competition, Market Structure and Harmonization

Xiaoyang Maggie Chen*

Department of Economics
University of Colorado at Boulder
Boulder, CO 80309-0256
Email: xiaoyang.chen@colorado.edu
Phone: 303-859-1853
Fax: 303-492-8960

March 2003

Abstract

This paper develops a North-South model of vertical differentiation where the two countries, which differ in market size and productivity, impose a minimum-quality-standard on goods sold in their markets. It first models both countries' standard choices related to given market structures, and then endogenizes the market structure based on standard competition. This model shows that at equilibrium the North can successfully set its standard to exclude foreign competition and maximize its monopolistic welfare, as the South loses to the North in this standard competition. The high Northern standard serves as an effective entry barrier, not to protect domestic producers, but to benefit domestic consumers with high-quality consumption. This paper also stresses that efficient harmonization efforts should emphasize on reducing the Northern standard and raising the Southern standard, thereby accommodating foreign competition in the North, provided that monopoly in the North is not a potential yield of harmonization.

Key words: quality; standard; market structure; harmonization

JEL codes: F1, L1, D7

* The author would like to thank Keith Maskus, Jim Markusen, Murat Iyigun, and Michael Nicholson for valuable and helpful suggestions and comments.