

# International Trade in Used Goods: The Case of Automobiles

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## Abstract

International trade in used goods is largely undocumented, yet it is substantial in some sectors and has tremendous potential for further growth. This paper investigates the welfare effects of global trade in used goods by exploiting an experiment in trade liberalization in a small open economy. In 1993 Cyprus relaxed import restrictions on used vehicles, making it possible for used Japanese vehicles to flow into the country. Imported vehicles were of high quality and considerably cheaper than local used cars. This led to a large shift of consumer purchases from new to used cars and a substantial expansion of the overall market. We estimate a differentiated product demand system over a 12-year period surrounding the policy change and use our demand estimates to calculate the effects on consumer welfare. Estimated consumer welfare gains are of the order of several hundred dollars per purchaser, the exact number depending on the year. Gains of similar magnitude may apply to other countries that import used cars.

*Keywords:* used goods, trade liberalization, automobile industry, Cyprus.

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