International oligopoly with public investments in trade-facilitating infrastructure: a differential game.

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The first models of dynamic international oligopoly were developed by Engelbert Dockner and Alfred Haug in 1990 and 1991, using the partial equilibrium framework. The present paper proposes a general equilibrium setting, in which we consider a differential game between two governments that invest in transportation infrastructure in order to help their exporting oligopolists in terms of reduced transport costs. Each country has a set of oligopolistic firms some of which compete in the world market. Countries differ from each other in terms of population sizes and the number of differentiated products.

We study the incentives for countries to build up (or not to build up) infrastructure capital and show how the patterns of trade evolve along the equilibrium path. The possibilities of multiple equilibria and Skiba points are explored. The paper sheds light on the roles of history and expectations in shaping the development of nations.

References:

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