TWO AND A HALF THEORIES OF TRADE*,†

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Abstract

This paper discusses the place of oligopoly in international trade theory, and argues that for many questions it is unsatisfactory to ignore firms altogether, as in perfectly competitive models, or to view large firms as merely more productive clones of small ones, as in monopolistically competitive models. Doing either fails to account for the “granularity” in the size distribution of firms and for the dominance of large firms in exporting. The paper outlines some ways of developing more convincing models of oligopoly, which allow for free entry but do not lose sight of the grains in “granularity”.

Keywords: GOLE (General Oligopolistic Equilibrium); granularity; heterogeneous firms; international trade and market structure.

JEL Classification: F12, F10

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