Group-Size Effects on Endogenous Tariff in a Lobbying Contest Model

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Abstract

Hillman and Ursprung (1988) and Fabella (1991) analyze lobbying contest models with homogeneous agents to show that the equilibrium probability of high tariff being imposed is decreasing in the number of pro-tariff domestic firms. Their theoretical results support Olson’s (1965) analysis of collective action that small group size is advantageous in influencing endogenous policy. However, empirical studies fail to find an unambiguous relation between industry concentration and policy effectiveness of an industry. This paper shows in a simple contest model that cooperation among agents in an interest group and/or heterogeneity between domestic and foreign firms can theoretically explain diversified relation between industry concentration and policy effectiveness of an industry.

JEL Classification Numbers: C72, D43, F12, L13.
Key Words: contest, lobbying, public good, rent-seeking, tariff

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