

Contest for Trade Policy

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Abstract

This study shows how people in two different groups, landowners and workers, behave in the time of transition of trade regime. They allocate their resources not only on production but also on political activities to extract favorable trade regime. This allocation of resources depends on their initial endowments and difference between autarky price and international price of the tradable good. Assuming agents spend resources on production and political activities, this research proves the existence and uniqueness of equilibrium of the allocation from both interest groups. In addition, the paper describes conditions that people may spend more resources on political activities. Difference between autarkic and international price and the ratio of initial endowments between two groups determine these conditions.