1. Quotas can increase a country’s welfare by adding more rents than they subtract from consumer surplus.

2. Under imperfect competition, a foreign firm *always* dumps (sells at a lower price than in its home market) simply due to declining marginal revenue.

3. The US requires proof of intent to monopolize and efforts to recoup costs in dumping, while the EU applies cost tests that usually find dumping.
1. Quotas can increase domestic surplus.

Suppose that demand is \( p(q) = 100 - q_1 - q_2 \) in country 1. An import quota on firm 2 of 20 would look like:

Domestic firm gains rent \( A + E = 5 \cdot 35 + 30 \cdot 5 = 325 \)

Domestic consumers lose CS \( A + B + C = 5 \cdot 55 + 2.5 \cdot 5 = 287.5 \)

There is market power either way, so it might as well be domestic.
2. Firms always dump under imperfect competition.

Traditional definition: different price in home and foreign market.

Conclusion: a foreign firm with transport costs always “dumps” when competition is imperfect.
3. US dumping tests are more stringent than EU’s

New definition: pricing below MC or just AC (for predation)

US Antidumping Act of 1914: must show intent to *monopolize* and ability to *recoup*

Usually groups of small firms in developing countries are accused of dumping.

An **undertaking** is a settlement whereby a firm charges the same price in both countries.

EU calculates “costs” of foreign firms in a way that almost guarantees dumping; costs can be 50%, even 200% above price.
Conclusion

1. A quota (or tariff) can increase a country’s domestic welfare under imperfect competition.

2. So-called dumping always occurs with imperfect competition.

3. US antidumping law implicitly recognizes point 2 and requires further evidence to prove dumping, while EU law ignores point 2.