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**THE IMPORTANCE OF BEING SMALL: SIZE EFFECTS IN  
INTERNATIONAL TRADE**

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**Abstract**

Market size and transport costs are important ingredients of international trade. We propose to look at these issues from a different perspective. Using a Hotelling duopoly model with quadratic transport costs, we analyze the welfare effects of international trade between two countries which differ only in size. Our results indicate that in most cases free trade will lead to a decrease in prices. Furthermore, the firm of the small country will benefit from market expansion. Finally, the model predicts that the small country benefits from a move towards free trade whereas the large country may be hurt by the opening to trade.

**Keywords:** international trade, nation size, mill pricing, spatial competition.

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