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South African Journal of Economics / Volume 73, Issue 3 / pp. 357-362

THE ECONOMICS OF IMPORT PARITY PRICING: A PEDAGOGICAL NOTE

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First published: 16 November 2005

https://doi.org/10.1111/j.1813-6982.2005.00023.x

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Abstract

This paper demonstrates that pricing to import parity is not necessarily *prima facie* evidence of the exercise of market power. It is shown that in the presence of imports both market structures, perfect competition and monopoly, can price to import parity. If markets can be segmented enabling the firm to discriminate between the export and domestic market it is shown that the imperfectly competitive firm can differentially price. Furthermore, as the number of domestic firms is increased, and if these firms are able to segment the market, the differential between domestic and foreign prices is reduced. The import parity price may or may not be charged in the domestic market. A measure of the exercise of market power is therefore the differential between export parity and the domestic price.

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