

Measuring the Economies of Scale in Iran's Automotive Industry and Evaluating the Welfare Effects of Variety in Car Imports

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Abstract

In the new theory of international trade, the deficiency in competition has been emphasized and the role of factors such as economies of scale and variety is taken into consideration. Car world market is also hugely dependent on economies of scale. Firms with sufficient scale and economies of scale are successful in this market. The main purpose of this study is to measure economies of scale in Iran's automotive industry and also to evaluate the welfare effects of variety of automobile imports in Iran. To calculate the economies of scale in automotive industry, Translog production function with input cost share equations and seemingly unrelated iterative regression estimation method were used during the time frame of 2002 to 2018. The research findings confirm that the Iranian car companies are in the descending area of the average cost curve, it means they have not yet benefited completely from advantages economies of scale. As well as in this study for evaluating the welfare effects of variety in imports of Iran's automotive industry, Feenstra and Broda & Weinstein methods has been used. The amount of product variety has been measured by product-level import data and the six-digit codes Harmonized System (HS) classification. The results suggested that the increasing in variety of imported cars leads to increasing in consumer's welfare and vice versa.

Keywords: Economies of Scale; Translog Production Function; Variety; Welfare Gains from Trade; Iran's Automotive Industry.

JEL Classification: C43, D24, L25, F14, L74.

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