

## Trade Ban and the Black Market: A Consideration of the Incentives for Illegal Production

大沼あゆみ<sup>1</sup>

This paper focuses on the illegal production, such as poaching, and the effect of some institutional and policy instruments on the production. Especially, we focus on the roles and the effects of trade ban.

The paper provides a simple general equilibrium model in which both legal and illegal markets exist interdependently, by introducing the concept of "moral pain" that is crucial to differentiate between the prices in the legal and the illegal markets. Using the model, we investigate, first of all, the effects of raising the confiscation effort in the black market and the laundering on the illegal production, and also the effect of controlling the legal supply on it. In addition, we examine the effects on the profit of illegal producer and the launderer.

Based on these results, trade ban is evaluated; the ban does not minimize the illegal production, and it can maximize it under a condition when laundering is not present. However, when the laundering is possible, a small enough legal supply will be shown to be harmful than the situation under the trade ban. But if the legal supply is large enough, to lift the ban and supply the legal goods will reduce the illegal production. Finally, we show that the legal supply is a useful policy instrument in the sense that it can generate a policy mix by which the effort to extinguish the laundering will always result in reducing the illegal production and the profits from black business.

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<sup>1</sup> 慶應義塾大学経済学部 E-mail: onuma@econ.keio.ac.jp