

Product Quality, Institutional Quality and Market Globalization

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Abstract

This paper builds a market equilibrium model to analyze how an accelerated globalization affects an average product quality and a social welfare through the effect on firms' product quality choice. The analysis is based on a simple unobservable product quality model incorporating an institutional quality which is captured by the probability that inferior goods are driven out from the market through various inspections. It delivers a message that institutional development and globalization should go hand-in-hand. Globalization deteriorates the quality of our lives, when the institutional development does not keep pace with it. Globalization may also lead to a bigger government size in order to maintain higher-quality institution.