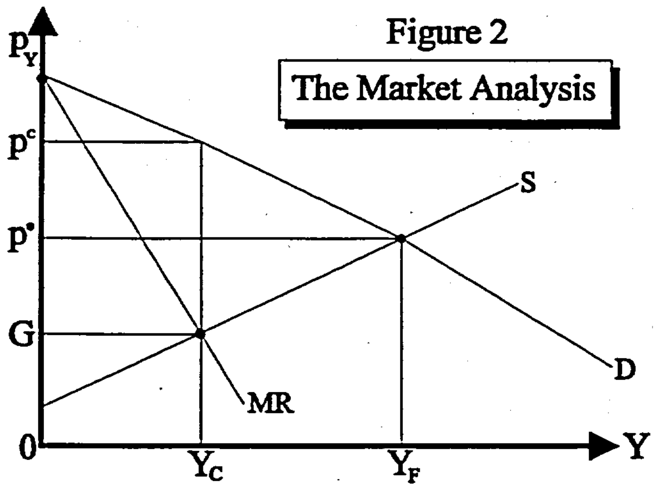
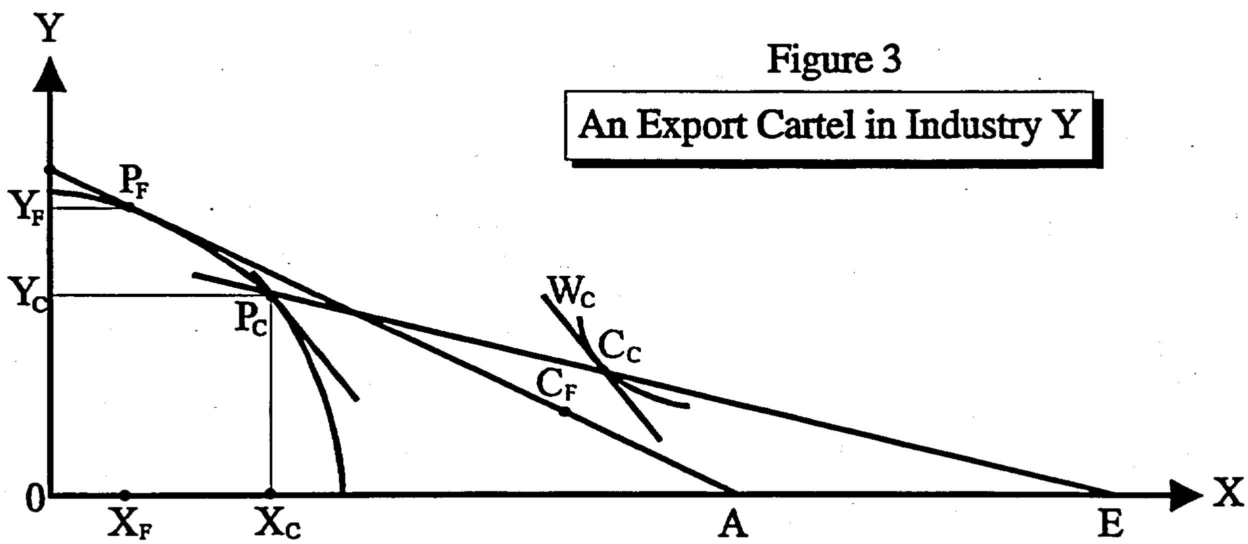
labelled W_F. In Figure 2, the demand and supply of good *Y* determine the output level at OY_F and the price at Op^*.



Suppose that the competitive firms producing good *Y* are now permitted to form an export cartel. To drain wealth to its member firms from customer countries, the cartel must scale back the level of output to OY_C in Figure 2. This reduction in the supply of good *Y* on the world markets results in a higher price of Op^c. Supra-normal profits contribute to an increase in the national income in the economy. The antitrust or competition policy authorities are willing to tolerate this situation provided the domestic market price of *Y* remains below Op^*, such as at *OG*.

The economywide consequences of the cartel formation are analyzed in Figure 3. The reduction in the output of good *Y* to OY_c shifts the production in the economy to P_c. The resources freed up in the *Y* sector move over time to sector *X* and the output expands from OX_F to OX_C. Additional output of good *X* results in a lower relative price of good *X*, as shown by the slope of the line P_CC_C. The higher level of national income possible under the



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