



Discussant comments on

TRADE THEORY WITH BEHAVIORAL AGENTS

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PIER Research Workshop 2025



SUMMARY OF THE PAPER

- Goal: incorporating behavioral economics to international trade theory
- Research Questions:
 1. How do consumer misperceptions of utility and prices influence the welfare gains from trade?
 2. What is the optimal tariff policy when consumers exhibit behavioral biases?
- Methodology: Extend the model of Farhi and Gabaix (2020) with international trade

SUMMARY OF THE PAPER

- Results: behavioral biases can either **amplify** or **diminish** the gains of trade
 - ✓ The cheaper healthy food from trade
 - Induce consumers who do not like healthy food to eat them more
 - Consumers are more healthy
 - ✓ The cheaper unhealthy food from trade
 - Induce consumers who like unhealthy food to eat them more
 - Consumers are more less healthy

Tariffs and nudges can adjust these inefficiencies

STRENGTH

- ✓ Solid contribution (Behavioral Economics + International trade)
- ✓ Connecting with the real-world situations
- ✓ Story telling and Writing

CLARIFICATION QUESTIONS AND POINTS OF DISCUSSION

- ❖ Why should rational consumers internalize externalities? (p.5)
- ❖ Do we need a tariff? Do nudges alone adequately correct for welfare losses due to behavioral biases?
- ❖ What empirical proxies can be used to measure the behavioral biases or consumers' wedge?
- ❖ Do we expect behavioral biases in all markets? If not, which markets would you expect strong behavioral biases?

POSSIBLE EXTENSIONS

- ❖ Optimal tariff including externalities:
 - Air purifier: provide private benefits but causes externalities
- ❖ Heterogenous consumers:
 - Some consumers overconsume imported air purifier and the other under consume it
- ❖ Firm's behavior under behavioral biased consumers
 - Different PPF curve and autarky

CONCLUSION

- New insight of international trade theory
- Introducing new tools to adjust inefficiencies from behavioral biases
- Raising potential inefficiency from implementing international trade policy

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THANK YOU

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