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# Multi-product firms in monopolistic competition: the role of scale-scope spillovers\*

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## Abstract

We develop a monopolistic competition model where firms are multi-product, and the elasticity of substitution on the consumption side is variable. The cost function, otherwise very general, is such that expanding firm-level product range (scope) reduces marginal costs of production of existing varieties. This captures *scale-scope spillovers*, i.e. within-firm spillovers between the scale at which firms operate and their choices of scope. Firm-level product ranges and the mass of firms are endogenously determined. We show how an increase in market size affects the market outcome. A larger market leads to lower prices, larger outputs, and a wider industry-level product range. Firm-level product ranges expand (shrink) under sufficiently strong (weak) scale-scope spillovers. Last, under strong (weak) spillovers, the number of firms increases less (more) than proportionally to the market size.

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