Quality and Competition between Public and Private Firms

Liisa T. Laine \textsuperscript{a,1} Ching-to Albert Ma \textsuperscript{b,*}

May 2017

Abstract

We study a multistage, quality-then-price game between a public firm and a private firm. The market consists of a set of consumers who have different quality valuations. The public firm aims to maximize social surplus, whereas the private firm maximizes profit. In the first stage, both firms simultaneously choose qualities. In the second stage, both firms simultaneously choose prices. Consumers’ quality valuations are drawn from a general distribution. Each firm’s unit production cost is an increasing and convex function of quality. There are multiple equilibria. In some, the public firm chooses a low quality, and the private firm chooses a high quality. In others, the opposite is true. We characterize subgame-perfect equilibria. Equilibrium qualities are often inefficient, but under some conditions on consumer valuation distribution, equilibrium qualities are first best. Various policy implications are drawn.

Keywords: price-quality competition, quality, public firm, private firm, mixed oligopoly

JEL Classifications: D4, L1, L2, L3

Acknowledgement: For their suggestions and comments, we thank Francesca Barigozzi, Giacomo Calzolari, Helmut Cremer, Vincenzo Denicolo, Katharina Huesmann, Ari Hyytinen, Qihong Liu, and the seminar participants at Auburn University, University of Bologna, Boston University, Helsinki Center of Economic Research, University of Hong Kong, National Taiwan University, the 16th European Health Economics Workshop in Toulouse, and the 14th International Industrial Organization Conference in Philadelphia. We also thank coeditor Tom Gresik, an associate editor, and two reviewers for their guidance. Laine received financial support from the Yrjö Jahnsson Foundation and the KAUTE Foundation.

* Corresponding author. Tel +1 617 353 4010; fax +1 617 353 4449.

\textsuperscript{a} Department of Economics, Boston University, 270 Bay State Road, Boston, MA 02215, USA; liisa.t.laine@jyu.fi

\textsuperscript{1} Permanent address: School of Business and Economics, P.O. Box 35, 40014 University of Jyväskylä, Finland

\textsuperscript{b} Department of Economics, Boston University, 270 Bay State Road, Boston, MA 02215, USA; ma@bu.edu
دریافت فوری
متن کامل مقاله
امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات