Interregional Mixed Duopoly, Location and Welfare

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Abstract

We investigate an interregional mixed duopoly where a local pubic firm competes against a private firm. We employ a spatial model with price competition. The public firm is owned by the local government of the left half of the linear city, called Region 1, and maximizes the welfare of Region 1. We demonstrate that our two-stage game composed of location choice and price competition has two types of equilibria. In one equilibrium, the public firm locates in Region 1 and the private firm locates in the outside of the region. In the other equilibrium, both the firms are located in Region 1.

JEL classification: L13; L32; R32; R59

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