Welfare-reducing entry in a differentiated Cournot oligopoly without costs[*]

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January 20, 2017

Abstract

We revisit the relationships between competition and market outcomes in a differentiated Cournot oligopoly. Consider an oligopolistic market consisting of n_1 (n_2) firms, which produce product 1 (2), and those products are differentiated. We show that social welfare and consumer surplus can decrease with the number of firms when the products of entrants and incumbents are homogeneous. Moreover, an entry of firm can increases prices and profits of firm producing the other variety.

Keywords: Cournot oligopoly, Product differentiation, Comparative statics, Social welfare, Consumer surplus, Price, Profit

JEL Classification Numbers: D43, L10, L50, M21