

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

Shohei Yoshida[†]

Graduate School of Economics, Osaka University

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 increase 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

*I am especially grateful to Noriaki Matsushima for his valuable advice. I would also like to thank Arijit Mukherjee for his very useful comments. The author gratefully acknowledges the financial support from Grant-in-Aid for JSPS Fellows (Grant Number 16J02442). All remaining errors are my own.

[†]Address: Graduate School of Economics, Osaka University, 1-7 Machikaneyama, Toyonaka, Osaka 560-0043, Japan. Phone: (81)-6-6850-6111. Fax: (81)-6-6850-5205. E-mail: pge031ys@student.econ.osaka-u.ac.jp.