What Industry Should We Privatize?: Mixed Oligopoly and Externality

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Abstract

The purpose of this paper is to investigate a model of mixed market under external diseconomies. In our model, firm's production generates emissions, which make environmental damage. Since private firms only consider their own profit and ignore such an environmental damage, then their emission level is high. On the other hand, the state-owned public firm considers environmental damage, and maximizes social welfare.

We show that, under sufficient high external diseconomy, the mixed oligopoly is better than the pure oligopoly for social welfare, even if the market is competitive. Moreover, in mixed oligopoly, an increase of external diseconomy might improve welfare.

JEL classification H42, L13, L33, Q28

Keywords environmental damage, mixed oligopoly, privatization, production substitution

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