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Endogenous Stackelberg equilibria in mixed duopoly

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Abstract

This paper investigates the Stackelberg equilibria in a mixed duopoly, where welfare-maximizing public firm competes with profit-maximizing private firm on either quantity or price space. Applying Dowrick's (1986) reaction function approach, we find that the relationship between the preference on roles of the Stackelberg leader/follower and the slope of firms' reaction functions in pure duopoly reversed. Each firm will prefer to be the leader, if their reaction functions slope upward. While the public and private firm may prefer different roles of leader/follower when their reaction functions slope downward. Welfare comparisons among Stackelbeg and Cournot outcomes are also considered.

Keywords: Mixed duopoly, Stackelberg leader-follower, role-choosing

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