

How Many Firms Should Be Leaders?: Beneficial Concentration Revisited

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Abstract

We investigate the relationship between Herfindahl-Hirschman Index (HHI) and welfare. First, we discuss the model with m leaders and $N - m$ followers compete. Daughety (1990) finds that, under linear demand and constant marginal costs, the Stackelberg model ($m \in (0, N)$) yields large welfare and HHI than the Cournot model ($m = 0$ or $m = N$). In other words, he shows that beneficial concentration takes place. We find that beneficial concentration always takes place when m is sufficiently large under general cost and demand functions, but it is not always true when m is small. Next, we consider free entries of followers. We find that beneficial concentration always takes place regardless of m .

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