Interregional Mixed Duopoly, Location and Welfare

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Abstract

This paper investigates the effect of a local public enterprise on locations of firms and welfare in an interregional mixed duopoly. We employ a spatial model (linear city model) by dividing a linear city into two districts and assume that there are two firms each of which has different home district. One of them is a local public enterprise owned by the local government which reigns over one of the districts, while the other is a private firm. The local public enterprise is characterized as the one which maximizes welfare of its own district. We show that our two-stage game composed of the location choice and the price competition has two types of equilibria. One is that the two firms are located in the different districts and the other is that they are in the same district whose local government owns the local public enterprise. We consider the equilibrium selection problem. Moreover, we examine the changes in ownership of firms as the central or local government policy.

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