

Subsidization and Partial Privatization in a Mixed Duopoly with Asymmetric Costs

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Abstract

This paper investigates both subsidization and privatization policies in a mixed duopoly with one semi-public firm and one private. In particular, we examine how optimal subsidization and privatization policies change once a technological difference between these firms is taken into account. We find that the government should not privatize its public firm and should adjust only the subsidy rate in order to enhance welfare. This is a sharp contrast to Tomaru (2006) who shows that the first-best allocation can be attained by setting the subsidy rate adequately regardless of the degree of privatization.

JEL Classification: L13, L33, H20

Keywords: Mixed Duopoly; Partial Privatization; Subsidization

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