

Demand Risk, Cost of Adjustment and Industry Dynamics

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Abstract

I construct a dynamic stochastic oligopoly model in which firms face demand risk and adjustment cost for investment. Investment becomes lumpy in the model and industry evolves via stochastic outcome of investment and entry and exit of firms. With this model, I investigate a role for demand shock and adjustment cost in shaping industry structure and its evolution over time.

Keywords : Dynamic Oligopoly; Entry and Exit; Market Share Dynamics.

JEL Classification : L11, L13, C73

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