A Dynamic General-equilibrium Model of Mixed Oligopoly Market with Cost Reducing R&D Investment

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The purpose of this paper is to develop a multi-period model of a mixed oligopoly. There exits public firms and private firms. The public firms maximize the discounted weighted sum of the utilities of households, its own profits, and those of private firms. The private firms maximize their own profits. In addition, only public firms invest in cost-reducing R&D. We show that there is a case which public firms set their prices equal to their marginal costs. When public firms treat the household better than firms, their prices are smaller than their marginal cost. On the other hand, when public firms treat firms better than the household, their prices are larger than their marginal cost. Therefore equal treatment of the household and firms provides marginal cost pricing.