

Market competition, firm profits and welfare in a Stackelberg oligopoly with cost asymmetry*

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Abstract

We revisit the relationships between competition and market outcomes in a Stackelberg oligopoly. Consider an oligopolistic market consisting of n leaders with different efficiency and m followers. The products of those leaders and followers are horizontally differentiated. We show that the efficient leader's profit may increase with product substitution and the number of follower even if the followers are the *most efficient* firms. Moreover, the effects of competition on producer surplus, consumer surplus and social welfare are ambiguous. For example, social welfare may decrease with the number of leader and follower.

Keywords: Stackelberg competition, Firm asymmetry, Horizontal product differentiation, Profit, Welfare

JEL Classification Numbers: L10, L40, M21, M37

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