

# Privatization of a multi-product public firm

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## Abstract

This study assumes that a public firm produces multi-product and then analyzed whether the production of goods which faces on competition against private firm should be privatized. At the same time, This study assumes that one goods (say, goods  $A$ ) is produced by only public firm and the other goods (say, goods  $B$ ) is produced by both public and multiple private firms. In this economy, two goods are substitutes, and the public firm has an inferior technology to private firms.

Considering the above situation, this study concludes following. When two goods are perfectly differentiated, if the number of private firm is small, the production of goods  $B$  should not be privatized; if its number is large, the production of goods  $B$  should be privatized. This result is consistent with Defraja and Delbono (1989). As the degree of product differentiation becomes small, for large its degree, the range that production of goods  $B$  should be privatized becomes wide (or, the necessary number of firm to be privatized decreases); for small its degree, the range that production of goods  $B$  should be privatized becomes narrow (or, the necessary number of firm to be privatized increases).

**Keywords:** multi-product firm, privatization

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