Endogenous Price Leadership and Setup Cost Reduction*

Hiroshi Fujiu
Chiba Keizai University

Rui Ota
Yokohama City University

January 24, 2018

Abstract

People may expect that the society benefits from new products in which state-of-the-art technologies are embodied. Is this claim valid under any models of price competition among Bertrand and Stackelberg? This study constructs an endogenous timing model where firms produces a new product by paying a setup cost, and demonstrates that Stackelberg competition would be selected when the setup cost is low. New product's price is higher and its supply is shorter in Stackelberg competition than Bertrand. This implies that governmental subsidy for the set cost can change the form of competition and the society could not benefit from new products. (101 words)

Key words: New products, Price competition, Stackelberg leader-follower competition, Endogenous timing game, Subsidy.

JEL Classification numbers: D40, L11, L16, H25

---

* *Correspondence to*: Hiroshi Fujiu, Department of Economics, Chiba Keizai University, 3-59-5 Todoroki, Inage, Chiba 263-0021, Japan. E-mail: fujiu@cku.ac.jp; Rui Ota, Department of Economics, Yokohama City University, 22-2 Seto, Kanazawa, Yokohama 236-0027, Japan. E-mail: rota@yokohama-cu.ac.jp. Ota gratefully acknowledges finiancial supports by the Grant-in-Aid for Scientific Research (KAKENHI #25780168 and #16K03635).