

**Attraction and retention of business investment:
The endogenous timing of bidding wars**

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Abstract

This paper considers incentive competition for investment in the case where the timing of competition is endogenous. A firm is contemplating to shift its business activity from the current location to a new one. Governments of these locations engage in a bidding war (a sealed bid auction) to attract or retain the business activity. When the firm strategically chooses the timing of this war, the resultant equilibrium is inefficient: the timing of relocation is too early or relocation is given up even though it is efficient. To address the efficiency implication of incentive competition, the bidding-war equilibrium is compared with the equilibrium without location incentives.

Keywords: bidding wars; incentive competition; business retention; location incentives

JEL code: F21; H25; H71; R58.