

Multi-product public firm's privatization and free entry of private firms*

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Abstract

This study investigates how the privatization policy affects the long-run market equilibrium when a public firm produces multiple products. The public firm can privatize some production sector, and each privatized production sector is operated by the respective privatized firm. In this economy, there exist many potential entrants and they enter the market if earning non-negative profit. As a result, we demonstrate the following results. When the number of privatized firms increases, the long-run equilibrium number of private firms entering the market increases. In the long-run equilibrium, full nationalization is socially preferable. Under full nationalization, free entry of private firms leads to excess entry (inadequate entry) when the public firm produces more (less) products.

Keywords: multi-product firm, privatization, free entry excess entry, insufficient entry

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