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Stackelberg equilibrium with many leaders and followers.

The case of zero fixed costs.*

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Abstract

I study a version of the Stackelberg game with many identical firms in which leaders and followers use a continuous cost function with no fixed cost. Using lattice theoretical methods I provide a set of conditions that guarantee that the game has an equilibrium in pure strategies. With convex costs the model shows the same properties as a quasi competitive Cournot model. The same happens with concave costs, but only when the number of followers is small. When this number is large the leaders preempt entry. I study the comparative statics and the limit behavior of the equilibrium and I show how the main determinants of market structure interact. More competition between the leaders always displaces the followers. Instead, how a stronger threat of entry affects the equilibrium depends on the technology. With strictly convex costs it is the followers that eventually displace the leaders.

Keywords: Stackelberg Equilibrium; Cournot Equilibrium; Existence of the Equilibrium; Supermodular Games; Entry Preemption; Endogenous Market Structures.

JEL Codes: L1, L13, C72.

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