

Competition with Targeted Product Design: Price, Variety, and Welfare

Miguel González-Maestre, Lluís M. Granero

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Highlights

- We consider the price and welfare effects of competition in targeted product design, in the context of the Salop circle model.
- Changes in product design lead to demand rotations that set the stage for our analysis.
- With an exogenous number of firms, we show that the degree of targeted product design tends to increase with the number of firms. Moreover, under reasonable conditions, price-increasing competition takes place, for intermediate levels of the number of firms. This effect is associated with the possibility of lower consumer welfare.
- With endogenous firm entry, an interesting insight from our analysis is that in some situations an increase in market size or a technological progress that reduces entry costs both might reduce consumers' welfare.

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