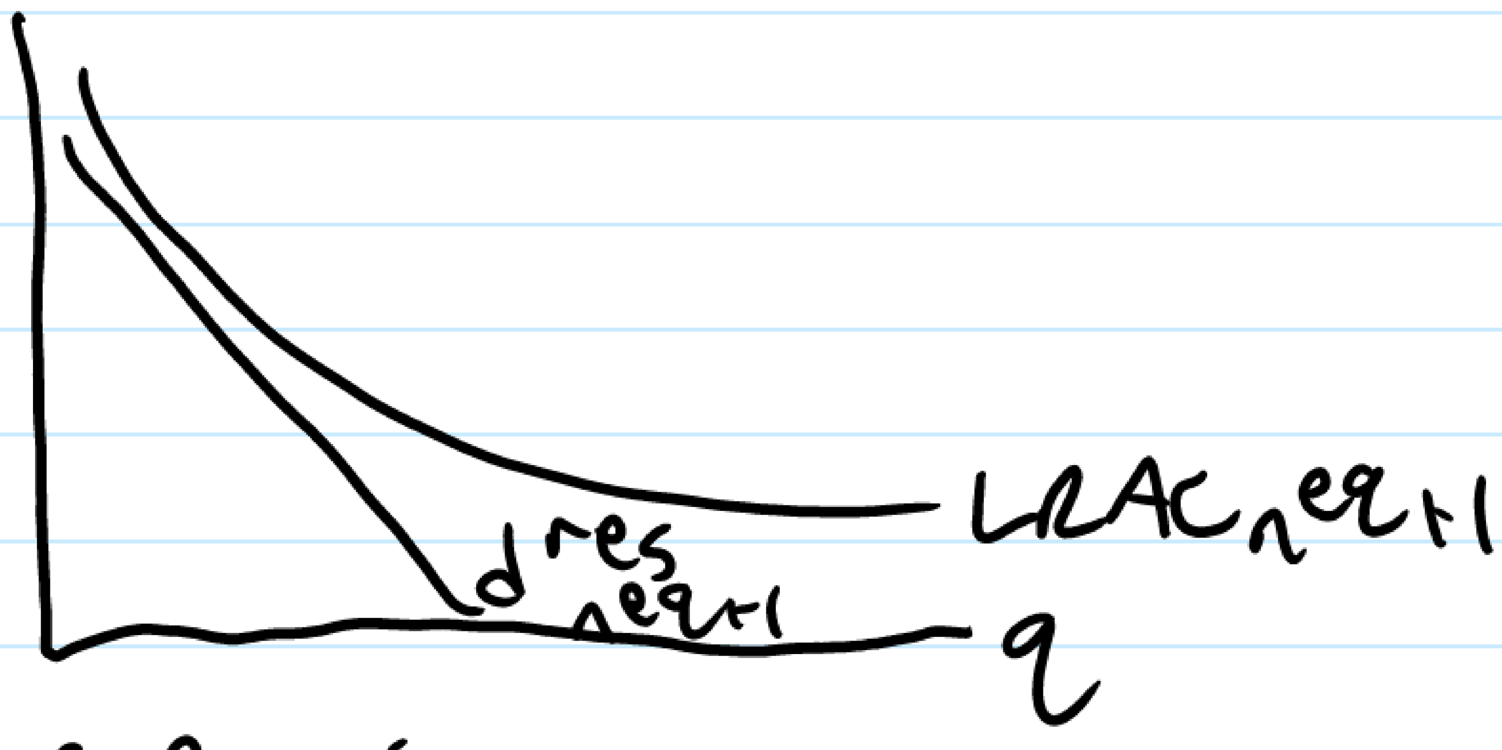
16.7 Long Run Entry 3

Friday, April 9, 2021 3:33 PM

Entry w/ differentiated products



$\pi(n^{eq}+1) < 0$
$\pi(n^{eq}) \geq 0$

$R = P(q)q$
$MR = \frac{dP}{dq}q + P$
$MR = P\left(\frac{dP}{dq} \cdot \frac{q}{P} + 1\right)$

$MR_i = P_i\left(\frac{1}{\varepsilon_i} + 1\right)$
$\varepsilon_i < 0$

more alternatives means
- better subs
- more elastic demand

As $\varepsilon_i \uparrow$ $MR_i = P_i + \frac{P_i}{\varepsilon_i} \to P_i$

Limit on ε_i? # of subs
Limit on subs?

mkt size relative to fixed cost

$$\boxed{\begin{array}{l} MR = MC \\ P \text{ about} = LRAC \end{array}}$$

free entry w/ diff products

$R_i = P(Q)q_i$
$MR_i = dP/dQ \cdot q + P = \frac{dP}{dQ} \cdot \frac{Q}{Q}\varepsilon_i + P = \frac{dP}{dQ} \cdot \frac{P}{Q} \cdot \frac{q_i}{Q} \frac{1}{P} + P$

$MR_i = P\left(\frac{s_i}{\varepsilon} + 1\right)$

$MR_i \to P_i$ $\qquad$ s_i rel to P, Q $n \uparrow$
$MR_i \to P$