A Price Competition Game

under Free Entry

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Abstract

This study builds a game of Bertrand-like price competition in a market with free entry. Under the assumption of a standard U-shaped average cost curve, it demonstrates that even if the number of sellers is small, a long-run competitive outcome can be supported as a Nash equilibrium. This game provides unifying treatments to the standard Bertrand equilibrium, the long-run competitive outcome, Demsetz's equilibrium as well as other types of equilibria that have not been known in the existing literature.