A Public Scheme toward Efficiency in Oligopolistic Markets

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Abstract

Let us consider a situation wherein a government owns two firms in an industry and it can not observe their cost functions. The government has implemented the following managerial incentive scheme: the manager of the firm whose profit is higher is paid the highest lump sum salary \$A. The other manager receives \$C, with C < A. If both are equally profitable, then both managers receive the same salary \$B where A > B > C. In this game the product price must be equal to the marginal costs in the Nash equilibria with pure strategies. The same result holds for the case the government owns more than two firms.

Keywords: Oligopoly; Incentive scheme; Market efficiency

JEL classification: L13; L32; L44