

Public Abstract

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Title:ENTRY BIASES IN COURNOT MARKETS WITH FREE ENTRY

Entry biases are the interest of many researchers. There is an entry bias when the number of free entry equilibrium firms is different than the number of social optimum firms in the market. As a result, entry biases determine whether free entry is desirable. This study examines entry biases in a Cournot market.

First, a homogeneous good market with linear demand is studied. Second, non-linear demand is introduced to the homogeneous good market. Third, non-homogeneous good market is examined under the assumption of identical firms, and lastly the study is extended to non-homogeneous good market with non-identical firms.

It is established that there are two kinds of entry biases in the homogeneous goods market. First, free entry may lead to excess entry relative to the socially optimal level. This happens when the number of free entry equilibrium firms is greater than the number of social optimum firms. Second, free entry may lead to the wrong type of firms in the market compared to the socially optimal type. In other words, free entry equilibrium and social optimum consist of different types of firms. Moreover, it is shown in homogeneous good market that both free entry equilibrium and social optimum are corner solutions that only one type of firms exists.

Entry bias in non-homogenous goods market with identical firms is also found to be excessive. When non-identical firms are introduced to non-homogeneous goods market, both types of firms may survive in the market due to the maximum degree of product differentiation.