

Monopoly Sponsored Entry in the face of Demand Uncertainty and Constrained Capacity

Farooq Sheikh
State University of New York (SUNY), Geneseo
USA

Abstract

Do monopolist always deter entry? We consider a situation where the monopoly is constrained by capacity in a product market where demand is uncertain but has stochastic dependence on installed capacity. We model the problem as a two period game, where the product quality and product demand is a function of the production capacity of the industry; and analyze the behavior of an incumbent and a would be entrant with regard to entry. We show that contrary to known results in the literature, here the period 1 monopolist would encourage entry in period 2 if the increase in product quality and product demand through is sufficiently high.