Location Choices and Partial Price Discrimination

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Abstract

This paper investigates the effects of price discrimination in the location decision of firms in a two-dimensional product differentiation model. Two settings are analysed. In the no-discrimination benchmark, firms choose location and then compete in uniform prices. Here we show that as in Thisse and Irmen (1998) firms choose maximal differentiation in the dominant characteristic and no differentiation in the other one. In contrast, when firms have information to engage in partial price discrimination in the second stage of the game, we show that maximal differentiation with respect to the non-discriminating dimension is a Nash equilibrium candidate, under some restrictions in the transportation costs, regardless of being the dominant characteristic.

Keywords: Location Choices; Price Discrimination; Multi-characteristics space, Duopoply

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