

Location choice under delivered pricing: a reinterpretation

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Abstract This article reinterprets, under a common framework, previous results on location choice under delivered pricing. The paper clearly identifies the economic forces which explain why the socially optimal locations are an equilibrium of the location-price game in some models, and why they are not an equilibrium in other models. The paper shows that the rationale behind Hamilton et al. (Reg Sci Urban Econ 19:87–102, 1989) and Gupta's (Reg Sci Urban Econ 24:265–272, 1994) non-optimality results are very different. While the first result is explained by the social inefficiency of the price game, the second one is due to the existence of a strategic effect.

JEL Classification D43 · L13

1 Introduction

This article reinterprets the results on location choice under delivered pricing. We consider a sequential game in which two firms first choose locations and then, given the pair of locations, choose (linear or nonlinear) price schedules. Our analysis concentrates on the first stage of the game, using results in the literature about the Nash equilibrium of the second-stage of the game.¹

¹ It should be noted that this paper considers only the case where firms compete in prices in the second stage of the game. Alternatively one could consider that firms choose quantity schedules (Cournot competition). The welfare implication of locations in Cournot has been studied, among others, by [Matsumura and Shimizu \(2005\)](#).

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