PRSE
Potsdam Research Seminar in Economics

ABSTRACT:

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Sharing rules in Bertrand duopolies with increasing returns

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Despite its empirical relevance, increasing returns to scale are understudied in experimental Bertrand markets. In our setting, returns to scale increase because of avoidable fixed costs. The equilibrium in this game depends on the market's sharing rule (which describes what happens in the case of equal prices). We use Bertrand duopolies to experimentally compare the symmetric sharing rule (where both of the two players serve half of the market demand) with the winner-takes-all sharing rule (where a fair randomization device decides who serves the entire market). We hypothesized that market prices under the winner-takes-all sharing rule are higher because it provides a collusion mechanism that the symmetric sharing rule does not. While we find that subjects under the winner-takes-all rule indeed coordinate twice as often on one price compared to the symmetric sharing rule, we do not find that this increases market prices.