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“Certification under Oligopolistic Competition”

Abstract:

In a symmetric duopolistic market where each firm's choice of quality of its product is its own private information, the extent of horizontal differentiation between firms plays a crucial role on certifier's optimal certification policy. Under a profit maximizing certifier, there exists a threshold value of the degree of horizontal differentiation below which the certifier charges such a high fee that only one of the firms produces the highest quality and opts for certification, whereas the other firm produces the lowest quality and does not opt for certification.

Further, when the horizontal differentiation is sufficiently small, the certified firm captures the entire market. Above this threshold value the certifier charges a much lower fee, resulting into a symmetric equilibrium where both firms produce the highest quality and opt for certification.

Under a nonprofit certifier, the asymmetric equilibrium vanishes. In this case, there exists only the symmetric equilibrium where both firms produce the highest quality and opt for certification.

Whenever the asymmetric equilibrium occurs under a profit maximizing certifier, the social welfare is lower than that in the symmetric equilibrium under a nonprofit certifier.