Quantity competition vs. price competition under optimal subsidy in a mixed duopoly

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This paper reconsiders the literature on the irrelevance of privatization on mixed markets, addressing competition in a duopoly with both quantity and price competition. We assume partial privatization under different time structures and derive the conditions on firm ownership under which an optimal subsidy allows to achieve maximum efficiency. We find that, independently of the mode of competition, the firms' ownership structure is irrelevant when firms play simultaneously and conversely matters when they compete sequentially, requiring the state-controlled firm to be publicly owned in order to let the optimal subsidy restore first best. The paper also focuses on the extent to which a subsidy is necessary to attain the social optimum, highlighting the equivalence between a price (quantity) game with public leadership or simultaneous moves and a quantity (price) game with private leadership.

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