

Investment Cost Sharing and the Form of Market Competition

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We inspect the interlink between the endogenous choice of price- and quantity setting behaviour in an oligopolistic market, and the cost sharing among the oligopolists in their joint initial investment. A typical situation of this sort is an oligopoly game where firms invest in product development first, and then play a marketing game later. Only in the initial investment stage, the firms set up a joint venture in order to share the costs. We discover that, in the presence of joint initial investment, the well-established result that firms endogenously choose quantity as a dominant strategy (*à la* Singh and Vives, 1984) may not be the only equilibrium outcome. In particular, the procedural order between firms' cost sharing decisions and their marketing decisions makes a key difference in the resulting equilibrium profiles.

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