BERTRAND VERSUS COURNOT COMPETITION IN A VERTICAL DUOPOLY

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Abstract. This paper examines whether firms prefer to choose prices or quantities with a manufacturing duopoly in which each upstream firm sells its product to its own downstream firm. The degree of product differentiation plays an important role in whether firms set prices or quantities. We show that price competition performs better than quantity competition, from the upstream and downstream firms' point of view, regardless of the product differentiation. We also show that pay-offs are larger in Bertrand (price) competition than in Cournot (quantitiy) competition if both products are differentiated to a certain extent.