

Price Competition in Markets with Ethical Niches

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Abstract

This paper considers a model of price competition in a duopoly setting whereby firms compete in a product group characterizable by an ethical niche attribute such as organic foods or dolphin safe tuna. We show that if a group of devoted niche consumers exist, an equilibrium outcome to this otherwise symmetric game will be an asymmetric adoption of products with and without the niche attribute by the two firms. Furthermore, we find that the more costly production technology will result in a price distribution that first-order stochastically dominates the other. Nevertheless, in every equilibrium, both the mainstream as well as the niche product will be produced.

Keywords: Niche Markets; Organic Foods; Tacit Collusion

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