DOI: 10.20472/IAC.2018.042.017

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ENDOGENOUS FIRM LOCATION WITH A DECREASING DENSITY OF CONSUMERS

Abstract:

This note will use the Hotelling's line model with a non-uniform distribution of consumers. Instead, a linear, decreasing density is employed to represent a decreasing population density as distance from a metropolitan area is increased along some transportation artery. Entry is sequential, and the number of firms is assumed endogenous after an initial firm is located, making the entrants consider the possibility of later firms. Entrants into this market have neither maximum nor minimum differentiation. Earlier entrants generally locate closer to the population center with the possible exception of the equilibrium location closest to the densest point on the line. The differentiation increases as the firms are farther from the population center.

Keywords:

Location
Product differentiation
Hotelling model

JEL Classification: L19, R32, D21