

Abstract

We study in this thesis the possibility of brand buying and its effect on welfare. Taking into account both types of differentiation (horizontal as well as vertical), we note that buying a low-quality brand is possible if the quality difference (net of cost) is high irrespective of the horizontal product differentiation. Consumer surplus always falls but welfare increases when for a given level of horizontal product differentiation, the quality difference (net of cost) is relatively high, and lower-quality good is not produced. On the other hand, buying a high-quality brand is possible if the quality difference (net of cost) is low irrespective of the horizontal product differentiation. Consumer surplus and welfare always rise. It is interesting to observe that in our preliminary model, a firm that acquires a lower-quality brand might determine it to be beneficial to cease production of that brand. This action could raise the profits of the industry and possibly enhance overall welfare. In our expanded model, it is possible for a firm that acquires a high-quality brand to decide that it is advantageous to halt the production of its own inferior quality brand. This move would result in a rise in industry profits and societal welfare. The goal of these actions is to decrease market competition, thereby creating a beneficial effect on industry profit and social welfare.

Keywords – Brand, Cournot, Quality, Product differentiation

JEL classification – D11, D43, L13, L24