

## 310-2 - Yossi Spiegel

### Solution to Problem set 2

#### Problem 1

- (a) If  $n$  firms decide to enter then the symmetric NE is such that each firm produces  $A/(n+2)$  units.
- (b) The profit of each entrant is  $\pi^* = (A/(n+2))^2 - F$ . Entry will take place until  $\pi^* = 0$ . Hence the number of entrants is  $A/F^{1/2} - 2$ .
- (c) As  $F$  increases there are fewer entrants. This is intuitive since the more entrants, the less profit each entrant makes. So to make entry profitable, fewer entrants can come in.