

Oligopoly, Financial Structure, and Resolution of Uncertainty

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Abstract

We characterize equilibria of a multistage game in which competing duopolists may acquire and share information in advance of choosing their financial structure which, in turn, precedes production. Given sufficient uncertainty, equilibria exist in which the efficiency and, possibly, coordination gains to acquiring and sharing perfect information are sufficient to break Brander and Lewis's (1986) result wherein both firms issue debt to their mutual disadvantage. However, more interesting may be the robustness of that result when uncertainty is low or when information is imperfect. The key insight is that the consequences of issuing debt are invariant to the level of uncertainty, given that firms can recalibrate the terms of debt to achieve the Stackelberg solution.

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