
Contents

1	Introduction	1
2	The State of the Research	11
2.1	Long-Term Competition without Strategic Decisions	11
2.1.1	Constant Demand	11
2.1.2	Demand Fluctuations	20
2.2	Long-Term Competition with Strategic Decisions	23
3	Empirical Evidence on Long-Term Competition	43
3.1	Long-Term Competition without Strategic Decisions	43
3.1.1	Constant Demand	44
3.1.2	Demand Fluctuations	47
3.2	Long-Term Competition with Strategic Decisions	61
3.2.1	Investment in Physical Capital	61
3.2.2	Financing	63
3.2.3	Management Compensation	65
4	Fluctuating Demand with Fluctuating Demand	69
4.1	Product Market	69
4.2	Constant Demand	73
4.3	Demand Shocks	78
4.4	Demand Cycles	84
4.5	Demand Cycles Subject to Stochastic Shocks	97
4.6	Comparison of the Market Results	100
4.7	Number of Firms	100
4.8	Sensitivity of the Price to the Market Size	103
4.9	Welfare	106
4.10	Discussion	109
4.11	Summary and Policy Conclusions	112

5	Strategic Investment with Fluctuating Demand	115
5.1	Organization of Production	116
5.1.1	Market Results	118
5.1.2	Feasibility of Collusion	124
5.1.3	Profitability of Cooperation in Production	132
5.1.4	Number of Firms, Market Size and Welfare	133
5.2	Demand Fluctuations	137
5.2.1	Demand Shocks	139
5.2.2	Demand Cycles	142
5.2.3	Demand Cycles Subject to Stochastic Shocks	147
5.3	Discussion	148
5.4	Summary and Policy Conclusions	151
6	Strategic Financing with Fluctuating Demand	155
6.1	Financing by Bonds	156
6.1.1	Market Results	158
6.1.2	Number of Firms, Market Size and Welfare	162
6.2	Demand Fluctuations	163
6.2.1	Demand Shocks	163
6.2.2	Demand Cycles	168
6.2.3	Demand Cycles Subject to Stochastic Shocks	173
6.3	Discussion	174
6.4	Summary and Policy Conclusions	176
7	Strategic Management Compensation with Fluctuating Demand	179
7.1	Stock-Based Management Compensation	179
7.1.1	Stock Market and Labor Market for Managers	181
7.1.2	Share-Price-Dependent Payments	185
7.1.3	Stock Options and Stock Grants	187
7.1.4	Deferred Compensation Components	188
7.1.5	Restricted Stock	191
7.1.6	Dividend Policy	192
7.1.7	Number of Firms, Market Size and Welfare	193
7.2	Demand Fluctuations	193
7.2.1	Demand Shocks	194
7.2.2	Demand Cycles	197
7.2.3	Demand Cycles Subject to Shocks	200
7.3	Discussion	200
7.4	Summary and Policy Conclusions	202
8	Discussion and Summary	205
8.1	Criticism of the Supergame Approach	205
8.2	Summary of the Main Results	208
8.3	Conclusions with Respect to Antitrust Policy	210

References 213

List of Tables 227

List of Figures 229

List of Symbols 231