

**Volume 28, Issue 3****Research Announcement****Endogenous quality choice: price and quantity competition**

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**Abstract**

The present paper is concerned with addressing the issue of firms competing in both prices and quantities (capacity levels) within a simple differentiated duopoly where products are asymmetrically differentiated by quality location. A three-stage competitive model is investigated such that firms compete in quality, followed by choice of fixed capacity levels, and finally, they compete in prices. An output asymmetry always exists at equilibrium such that the high quality firm always carries excess production capacity relative to the low quality firm. Total production capacity, however, may not fully cover market demand for an incumbent duopoly.

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