

How Taste Dispersion Affects Optimal Prices, Advertising Expenditures, and  
Profits in a Dynamic Duopoly

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Abstract

The purpose of this paper is to introduce the taste dispersion in disutility and to adopt a more flexible taste distribution form for measuring consumer heterogeneity in the framework of predatory advertising. The results show that greater taste dispersion leads to higher prices and advertising expenditures and the number of consumers. We use numerical illustrations to show managerial implications and give some insights into the steady state prices and advertising expenditures in the context of a symmetric feedback information structure.

Keyword : Advertising expenditures, Taste dispersion, Differential game, Feedback Nash Equilibrium.