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Price regulation, product location, and welfare^{*}

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Abstract

This paper investigates the imposition of a binding price ceiling and how it affects overall welfare and the location of a monopolist that is price-discriminating between two markets. The analysis shows that the imposition of a price-ceiling induces the monopolist to locate at the regulated market and that the imposition may actually reduce welfare. The setting is extended to a duopoly market. Two types of regulation are considered. The welfare implications of the regulations are discussed.

JEL classification codes: L51, L12, F23

Key words: Price discrimination, price ceiling, multi-product firm

Running head: Price regulation and product location

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