Abstract

This paper analyzes the *strategic capacity allocation* of an international oligopoly. Because a line of products shares specific inputs that are fixed in the short run, a multiproduct oligopolist faces a *capacity constraint* in the production. Not being able to produce the desirable quantities to meet demand, an oligopolist has to strategically allocate its capacity among different products against its rival(s). If the market were monopolistic, a firm would mainly concern the effective profitability of a product when allocating its capacity and when responding to a capacity expansion. Identical duopolists that compete in a Cournot fashion should have identical capacity allocation. However, in a sequential game, the Stackelberg leader may allocate all its scarce capacity towards the more profitable product, while the follower will have to allocate some capacity towards the unprofitable product. This matches the observation that Boeing, the incumbent in the large commercial aircrafts (LCA) industry, specializes in smaller plane such as the 787, while Airbus makes both the superjumbo A380 and smaller planes like A350.

Keywords: Multinational Corporations; Multiproduct; Oligopoly

JEL classification: F12; F13; F23; L12; L13