

# Capital Commitment and a Labour-managed Firm's Reaction Functions in a Labour-managed Duopoly and a Mixed Duopoly

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## Abstract

I first show that under the linear demand, a labour-managed (LM) firm's short-run reaction function is negatively sloped, horizontal, or positively sloped depending on the magnitude of the elasticity of output with respect to labour, and that its long-run reaction function is negatively sloped. Subsequently, using a Cournot two-stage game with capital strategic interaction, I show that in an LM duopoly, whether LM firms set a higher level of physical capital and produce a higher level of output at strategic equilibria than at nonstrategic Nash equilibria depends upon the magnitude of the labour elasticity of output. In a mixed duopoly, the LM firm tends to have the higher level of capital at the strategic equilibria than at the nonstrategic equilibria, whereas whether the profit-maximizing (PM) firm under-invests depends on the magnitude of the labour elasticity of output for its LM competitor.