

Dear Referee,

Thank you very much for your comments. The source of confusion seems to me the fact that we exogenise the location of firms (as you noticed in the last sentence of your point 1). We say it in the first page of the paper, second paragraph, first sentence:

“Here instead we assume as exogenous the location of firms along the quality spectrum, while endogenising the distribution of roles to be taken at the quality stage through a pre-play stage preceding the quality investment phase.”

By doing this, we complement the analysis of Aoki (2003), in which the leader and follower’s role are predetermined while the choice between high and low quality is endogenous. Since the timing in Aoki (2003) is exogenous, the cases with simultaneous and sequential moves in the quality stage are examined separately (and firm 1 exogenously acts as a leader), whereas our analysis allow firm to choose whether to play simultaneous or sequential moves.

This can be contemplated in Aoki (2003) Figure 3 page 660 shows that there are two symmetric situations in which both firm 1 (leader) or 2 (follower) may set the higher standard. According to Proposition 3, in equilibrium the leader sets the high standard.

Whereas Aoki can compare profits from simultaneous and sequential case, without say which situation is chosen, with our approach we can also say if firms will choose simultaneous or sequential moves.

The fact that firms have exogenously determined quality and endogenous timing may reflect the situations in the real world in which firms operating already in a market (so that they already have a ranking of quality between each other due to previous investments) decide to enter in another market of the same good (maybe in a foreign country) and, if so, they decide the timing of entry.

I hope this helps to understand the results in the model.

Best wishes,  
Alessandro