

Referee report on MS 2386.

The paper contributes to a small but growing literature on the price competition between firms that face boundedly rational consumers.

A novel contribution of this paper is the study of the interaction of limited attention on the side of consumers with their degree of horizontal preferences. The author incorporates the limited attention model of Masatlioglu et al. (2012) into the Hotelling model with consumers positioned on the interval $[0,1]$ and two firms at the boundaries. Some consumers (non-savvy) are only aware of the presence of one firm, but not the other. Their limited attention can be independent of or correlated with their position on the interval. The paper identifies the resulting equilibria for different values of transportation costs and the proportion of non-savvy consumers. It provides an interesting comparative statics analysis, particularly how equilibrium profits and total surplus are affected by the proportion of non-savvy consumers.

It discusses the firms' incentives to obfuscate (or educate) their consumers, a potentially important question from the point of view of welfare analysis. The analysis is technically correct; however, results can be made more interesting if the author provided a formal model of obfuscation. Currently he simply notes that firms in highly competitive industries (in this context, meaning industries with low transportation costs, as there are only two firms in the model) will prefer more consumers to have limited attention and interprets it as incentives to obfuscate; however, no model of obfuscation is provided. It would be more interesting if the firms could undertake some investment to change the consumers' level of attention. For an example of such a framework, see Basov and Danilkina (2015).

It would also be interesting to extend the model to more than two firms, by adapting Salop circular city model, and to use the number of firms in the industry as a degree of competitiveness (instead of transportation costs). I wonder if in such a model obfuscation will be more prevalent in less competitive industries as well as more competitive ones (as measured by the number of firms) since investing in obfuscation becomes a public good from the point of view of the firms.

Some other points:

It would be helpful if the author provides proofs of both Propositions as well as a more detailed analysis of profits in the case of correlation.

The author should also proofread the paper and correct grammatical mistakes. For example, in the second paragraph in Conclusion "*According consumer surplus comparison some obfuscation can optimal*" must read "*According **to** consumer surplus comparison some obfuscation can **be** optimal*".

In summary, I find this area of work interesting and would recommend to revise the paper along the lines suggested and resubmit.