

Answers to referee 2.

1) I concur with the referee, the interaction process can be graphically described with an extensive form game. This would probably add clarity to the paper.

2) The reaction functions can be graphically illustrated. In particular, a figure containing the graphical representation of eqs. (27) and (28) should be added.

3) Multiple equilibria can be ruled out because of the monotonicity of the cost function and because of the hypotheses of strictly increasing ability distribution $\Gamma(\cdot)$ and strictly increasing distribution of firms $\Phi(\cdot)$. I believe that a graphical discussion can be important.

4) The discussion concerning reaction functions and ranking behavior can also be added.