Thanks for your attention. As I understand the response there are three points about the validity of the results and three points about style and notation.

Point 1. In a paper also from 1987 Fershtman, Judd and Kalai (1987) discuss if the equilibria of a strategic game change because of delegation. They conclude that delegation changes the outcome. This result does not rely on information asymmetries. In this sense, demand uncertainty and information asymmetries are in general irrelevant for the decision to delegate. Fershtman and Judd (1987) discuss the issue about information and stresses that owners have less information than managers do. This can explain why owners chose to delegate in spite of the fact that delegation leads to a profit loss. My result is different since owners' choice to delegate increases profits even when owners and managers have the same information. I have added a new note 1 with reference to Fershtman, Judd and Kalai (1987).

Even if the assumption of uncertainty is unnecessary to motivate delegation (Fershtman, Judd and Kalai (1987)) it is important in other respects. First, the supply function equilibrium is appealing under uncertainty. Second, it is one way to rule out multiple equilibria. Following Klemperer and Meyer (1989, note 7) there are two ways to rule out multiple equilibria; uncertainty and, in the absence of uncertainty, restrictions on the form of the contract.

Point 2. Multiplicity of equilibria is not a problem when demand is linear and costs are quadratic since Klemperer and Meyer establishes uniqueness and existence in this case. But the use of a linear demand function and quadratic costs are arguably restrictive. Nevertheless, the use of specific functional forms is

also fund in Fershtman and Judd (1987) as well as in Sklivas (1987), and, as noted, Klemperer and Meyer (1989) discuss this specific case.

In my response to referee no. 1 I suggest adding a note showing how one can discuss managerial incentives using a more general demand function. Having a general demand function as well as general cost functions, the (symmetric) supply function equilibrium is described by a two-dimensional system of differential equations (equation (7) in Klemperer and Meyer (1989)). I expect that the way delegation affects profit is ambiguous in cases that are more general (since new note 11 shows conditions on the demand function). This can be a starting point for asking when delegation is beneficial (in terms of higher profit) and when it is not. But I see this as an extension of the present paper.

Point 3. As you mention, the paper by Laussel (1992) shows the point about strategic complementarity but with a different application (incidentally, Laussel's proof of existence and uniqueness covers the situation studies in my paper). My apologies for not paying credit. I suggest to add a note (new note 3) placed at the end of paragraph 4 in the introduction: "Laussel (1992) also shows that the slopes of the supply functions are strategic complements in a supply function equilibrium. "

Point 4. With respect to the writing style, referee no.1 does not have the same impression as you do. Nevertheless, I have gone through the paper one more time and moved parts of section 4 to section 3. More precisely, equations (7) and (8) are now placed in section 3 as equation (4) and (5). In this way, results about managers' response to incentives are in section 3 and results on owners' choice are in section 4.

Point 5. In the introduction I use the term ”aggressive” as it is used by Reitman (1993). In order to avoid confusion I have cut down on using the term “aggressive” by making more precise reference to parameters.

Point 6. The notation is changed so that sales-revenue s_i is now called r_i.

New reference.

Fershtman, Judd and Kalai, 1987, Cooperation Through Delegation, Discussion Paper 731, Kellogg Graduate School of Management, Northwestern University, Illinois.