The objective of the study was to examine the role of excess capacity as an entry deterrence instrument. The firms operating in industries have an incentive to deter entry of new competitors because the entry would lead to increased supply and bring down the profits of the established firms. There are several different instruments that firms can use to prevent the entry and one of these instruments can be excess capacity. The excess capacity can prevent entry when the market demand is not growing sufficiently to accommodate the new entrant and the incumbent is able to cut prices to maintain output levels. This situation leads to a risk of lower profits or losses for the entrant due to the lower prices and creates unwillingness to enter.

The study examined the role of excess capacity as an entry deterrence instrument with three theoretical models and empirical evidence found from the literature. In addition to these, the study presented an alternative approach to excess capacity as an instrument to promote entry. The theoretical models presented included a two-stage duopoly model, a three-stage duopoly model and an oligopoly model. The duopoly models included an entrant and incumbent and oligopoly model entrant and industries which were either tight or loose oligopolies. The model suggesting excess capacity as an entry promoter was a model with monopsonist buying an input from large number of suppliers. The empirical evidence was based on the study that analysed the data sample of 38 chemical products with 20 years coverage.

Main findings of the study were that excess capacity can be used to prevent entry in certain circumstances. Among the duopoly models, three-stage model was found to imply a larger set of technologies in which entry deterrence is possible. In oligopoly model entry deterrence was found to be possible if entrants cannot separate loose oligopolies and tight oligopolies with excess capacity from each other. Excess capacity was also found to be effective entry promoter in certain circumstances. No significant empirical evidence concerning excess capacity as entry deterrence was found from the literature.

### Keywords
- Excess capacity
- Entry deterrence
- Entry barriers

### Where deposited

Muita tietoja-Övriga uppgifter-Additional information