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ON HOTELLING'S "STABILITY IN COMPETITION"

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THE PURPOSE OF THIS NOTE is to show that the so-called *Principle of Minimum Differentiation*, as based on Hotelling's 1929 celebrated paper (Hotelling [3]), is invalid. Firstly, we assert that, contrary to the statement formulated by Hotelling in his model, nothing can be said about the tendency of both sellers to agglomerate at the center of the market. The reason is that no equilibrium price solution will exist when both sellers are not far enough from each other. Secondly, we consider a slightly modified version of Hotelling's example, for which there exists a price equilibrium solution everywhere. We show however that, for this version, there is a tendency for both sellers to maximize their differentiation. This example thus constitutes a counterexample to Hotelling's conclusions.