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Real Options in an Oligopoly Market

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Abstract: This paper considers strategic entry decisions in an oligopoly market when the underlying state variable follows a geometric Brownian motion. It is shown that, even in the oligopoly case, three types of equilibria exist as in the duopoly case. Also, the firm value as well as the trigger point for investment decision increases as the market uncertainty increases. The presence of strategic interactions may push the firms to invest earlier than the trigger point. Nevertheless, the investment decision is always later than the traditional NPV criterion, even when the number of potential firms becomes infinity.

Keywords: [investment decision](#); [strategic substitution](#); [NPV criterion](#); [sequential investment](#); [simultaneous investment](#)

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