Abstract

We present a dynamic, finite-time model in which two long-lived sellers compete at each period for a short-lived buyer. One of the sellers has the option to adopt a new technology for production which exhibits both switching costs and learning by doing. We show that some efficient technologies are not adopted in equilibrium. Switching costs and learning by doing give incentives to the second seller to undercut prices and render the adoption unprofitable. We characterize the set of technologies which are adopted in equilibrium and show that those technologies which are learned faster and not necessarily those which are more efficientare more likely to be adopted.