

## **The priority option: the value of being a leader in complete and incomplete markets**

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In a recent paper, Bensoussan, Diltz and Hoe (2010) provide a comprehensive analysis of optimal investment strategies under uncertainty and competition. They consider two firms competing for a project whose payoff can be either a lump-sum or a series of cash-flows, in both complete and incomplete markets. Despite its generality, the analysis is restricted to a Stackelberg game, where the roles of leader and follower are predetermined. In this talk, I'll extend the analysis to the case where these roles emerge as the result of a symmetric, Markov, sub-game perfect equilibrium, extending the seminal work of Grenadier (1996) and (2000) to incomplete markets. As a result, one can calculate the amount of money that a firm would be willing to spend in advance (either by paying a license or acquiring market power) to have the right to be the leader in a subsequent game - what we call the priority option. (This is joint work with Vincent Leclere).