Perfect equilibrium prices under social differentiation

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We study a usual duopoly game with two stages game. In the first stage firms choose prices and in the second stage individuals choose to which firm they are going to shop. The initial set up is the Bertrand price model. We add a new term to the utilities of the individuals: the social influence in choices. We are able to full characterize the local perfect equilibria: some individuals decide to be loyal to some firm and others to choose a mix strategy. Our new model brings a new understanding of the Bertrand paradox.