

## Material for referees

We would like to express our gratitude to the Editor in Chief, the Area Editor and the two referees for their careful and constructive suggestions. We believe that the incorporation of all of their suggestions has greatly improved the paper. The revisions are as follows.

### Revisions made in response to suggestions by the Editor in Chief

**Editor-1** As explained below, we incorporated all of the recommended revisions in the AE report.

**Editor-2** As explained below, we follow all of the comments by the review team.

**Editor-3** As mentioned earlier, we incorporated all of the recommended revisions in the AE and the review team reports. So, we think that we completely follow your comment #3.

**Editor-4** We follow the recommendation in reviewer report #1.

**Editor-5** We think we do everything we can. We add the list of fixes at the end of this pdf file.

**Editor-6** We cite the two papers (see footnote #4 (page 4) and #17 (page 14)). We thank you for your helpful advice.

**Editor-7** The regular appendix has 8 pages (pp. 25-32). We think that we follow your request: "...keep the regular appendix to a reasonable length (perhaps, 10 pages)."

**Editor-8** The paper is not based on our dissertations.

**Editor-9** The abstract contains less than 200 words.

**Editor-10** We have prepared the pdf file and a copy of our manuscript in L<sup>A</sup>T<sub>E</sub>X (with several attachments).

**Editor-11** We do not changed *except* the expositional errors mentioned in [Editor-5] (see also [AE-3]).

### **Revisions made in response to suggestions by the Area Editor**

**AE-1** To meet the comment, we remove the discussion regarding the need of firms to create “brand perception as a high-end brand” (page 4). We also remove the discussion regarding the ability of promotional activity (page 5). We thank for your advice.

**AE-2** We move the former footnote 7 to the current footnote 6 (page 5, the last line).

**AE-3** We add a brief discussion about the condition on equation 11 (page 18).

We mistook the condition on equation 11 (fortunately, the error was innocuous and Figure 3 has been correctly depicted in the previous version). Although we must put the converse of equation 10 on equation 11, we put that of equation 7 on equation 11. We apologize for the error.

**AE-4** We correct the typo about “ $\in$ ” (page 29).

**AE-5** We follow your advice. We first provide Cournot and then Bertrand.

### **Revisions made in response to suggestions by Reviewer 1**

**1** We add several comments in page 13 (the last four lines) and the abstract. We also add Monopoly case in Appendix (page 28, see also footnote 15 (page 13)). We thank for your helpful advice.

**2** We add the explicit calculations about the price undercutting in footnote #22 and #24 (pages 17 and 18). We thank for your helpful suggestion.

**3** We put footnote #11 and #12 into the text (page 8, after the “large” equations).

**4** We change the words “market properties” to “market size” (page 8, the fifth last line). We thank for pointing out the error.

**5** We briefly add the intuition of our model to the abstract (lines 8-12).

**6** We add the words “a profit of” to Lemmas 1 and 2 (page 10). We also follow in the rest of the lemmas.

### **Revisions made in response to suggestions by Reviewer 3**

We follow AE advice. We first provide Cournot and then Bertrand. We add briefly the intuition of our model to the abstract. We thank you for your comment.

### **The list of fixes**

**page 2, Abstract:** The former version started: “In this paper, two examples of ....” We change the first sentence as follows: “Two models of competition ....” We replace the word “examples” with “models.”

**page 3, the fist paragraph (lines 1 and 4):** We also replace the word “examples” with “models” in this paragraph.

**page 7, footnote 10:** We replace the word “section“ with “subsections” in the second phrase (“In the next subsections, ...”).

**page 10, line 8:** We replace the word “outweigh“ with “outweighs”.

**page 11, Lemma 3:** We employ the phrase “a profit of” which pointed out by Reviewer 1. We do in the rest of the lemmas.

**page 15, Section 3.1:** The last sentence in the first paragraph ended: “.... and the number of consumers in  $H$  ( $L$ ) is  $\lambda (1 - \lambda)$ .” We change the sentence as follows: “..... and the number of consumers in  $H$  (*resp.*  $L$ ) is  $\lambda$  (*resp.*  $1 - \lambda$ ).”

**page 16, Section 3.2, the first paragraph:** We add “(1929)” at the end of the first sentence.

**page 25, “Proof of the ....”:** We replace “Section 2” with “Section 2.2”.

**page 30, the second equation:** We remove several inappropriate characters.