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**IMPERFECT COMPETITION AND CONGESTION
IN THE CITY**

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Abstract

This paper presents a spatial model to study imperfect competition with congestion. The model is used to examine the price and wage setting of subcenters of a city. Residents live in a city while they shop and work in subcentres. Each subcenter offers one differentiated product and one differentiated workplace. Shopping and commuting from the city to the subcenter requires the use of transport infrastructure that can be congested. We show the existence of a Nash equilibrium in prices and wages and analyse the welfare impacts of congestion charging and infrastructure policies. This paper generalised the literature on imperfect competition with differentiated products as well as the literature on congestion pricing with imperfect competition.

Keywords: road pricing, product differentiation, location theory, new economic geography, congestion.

JEL Classification: L13, D43, R41, R3.

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