Incorporating Policymaker Costs and Political Competition into Rent-Seeking Games

R. Kenneth Godwin  
*University of North Carolina*

Edward J. Lopez  
*San Jose State University, edwardjlopez@gmail.com*

Barry J. Seldon  
*University of Texas at Dallas*

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Incorporating Policymaker Costs and Political Competition into Rent-Seeking Games

R. Kenneth Godwin,* Edward J. López,† and Barry J. Seldon‡

We incorporate policymaker costs of supplying rents and variable intensities of competition among rent seekers into the standard rent-seeking game. By incorporating these aspects, the game has greater verisimilitude to the lobbying process. The first aspect captures the fact that in rent-seeking contests there is a positive probability that neither firm will obtain the rent. The second aspect captures the fact that firms seeking different rents still must compete for policymakers’ resources. We find that lobbying expenditures, rent-seeking profits, and rent dissipation depend on the intensity of competition and the value of the rent relative to policymakers’ costs. For example, if the value of the rent is sufficiently high relative to policymakers’ costs, an increase in the intensity of political competition will increase lobbying expenditures; otherwise, expenditures fall as competitive intensity increases. In addition, the model establishes pure-strategy equilibria with underdissipation where only mixed-strategy equilibria exist in the standard model.

JEL Classification: D72, H42, L51

1. Introduction

Rent seeking in politics involves agents who lobby policymakers for potential benefits. In a seminal contribution, Tullock (1980) modeled rent seeking as a lottery game. A major weakness of Tullock’s game was that it lacked verisimilitude to actual rent seeking because it omitted politics. The absence of politics meant that the game essentially assumed that there are no costs to the policymakers of supplying rents. But as Tollison (1997) and others have pointed out, these costs are not zero, and the politics surrounding the policy decision influence the pattern of lobbying and the rent-seeking outcome. In this paper we address two aspects of those politics: the costs to policymakers of supplying rents and the variable intensity of political competition among a given number of rent seekers. Including these aspects increases the similarity of the game to actual rent-seeking situations and makes clearer the incentives to rent seekers.

* Department of Political Science, 400 Fretwell Hall, University of North Carolina, 9201 University City Boulevard, Charlotte, NC 28223-0001, USA; E-mail godwink@email.uncc.edu.
† Department of Economics, 147 Dudley Moorhead Hall, San José State University, One Washington Square, San José, CA 95192-0114, USA; E-mail edward.lopez@sjsu.edu.
‡ Economics Program, School of Social Sciences-GR 31, The University of Texas at Dallas, 2601 N. Floyd Road, Richardson, TX 75080, USA; E-mail seldon@utdallas.edu; corresponding author.

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Costs to supplying rents arise due to various constraints. Legislators must build coalitions, acquire parliamentary rights, maintain a positive image, and service constituent interests. Policymakers in agencies must follow procedural rules, submit to congressional oversight and budgeting, pass OMB reviews, and so forth. Lower policymaker costs should increase the effectiveness of lobbying, and this should attract greater lobbying efforts among rent seekers. Increasing policymaker costs makes lobbying less effective. Indeed, because of these costs policymakers often turn away lobbies empty-handed. In short, policymakers have constraints that affect the policies they design, and this affects lobbying expenditures (Dougan and Snyder 1993). This paper introduces policymaker costs in monetary units, such that they are comparable to the value of the rent and rent-seeking expenditures.

Political competition among rent seekers also influences the rent-seeking outcome. Competition traditionally has been modeled by varying the number of rent-seeking agents (actual or potential) or their relative lobbying expenditures (e.g., Posner 1975; Rogerson 1982; Sun and Ng 1999). Competition can vary, however, even among a given number of rent seekers and for a given profile of expenditures. For example, two agents may lobby a policymaker for the same unique and exclusive political good. Then one agent directly opposes the other and only one agent can win the good. Alternatively, the same two agents may lobby a policymaker for two separate political goods. In that case, the agents oppose each other only indirectly. This situation is frequent in politics as rent-seeking agents compete for space on the political agenda, for policymakers' time, and for portions of a particular government budget. In this situation, success by one agent does not necessarily result in failure by the other, but it does lower the probability that the other agent will succeed. Competition is more intense in the first example, even though the examples involve the same number of firms. Industrial organization economists have shown that a single parameter can determine incumbent firms' competition in price and quantity regardless of the number of firms present. This paper introduces rent-seeking competition analogously, allowing a parameter to alter the competitiveness of the rent-seeking game among a fixed number of firms.

We incorporate monetized policymaker costs and the political competition parameter into the success probabilities of the standard rent-seeking game. The resulting model is a game in which the agents' simultaneous maximization of expected net returns (or profits) determines a Nash equilibrium in their expenditures. Incorporating politics into the standard game makes the game more accurate because equilibrium and comparative statics depend in part on the politics of the rent-seeking contest. More specifically, increasing political competition decreases rent-seeking expenditures unless the value of the rent is sufficiently large relative to policymaker costs; and dissipation rates are lower than in previous research because of policymaker costs. Furthermore, under increasing returns to expenditures there is a unique pure-strategy equilibrium with underdissipation of rents, unlike the standard game, which has stochastic mixed-strategy equilibria with overdissipation occurring about half the time.

Intuitively, in the model incorporating politics, rent seekers will avoid competition with each other, search for low-cost providers of political goods, and generally avoid overdissipation. With such implications, our model extends the Tullock game in a political-economic sense, reaching more empirically reasonable results than previous models.

---

1 Organized interests concentrate campaign contributions on legislators with greater parliamentary power over their issue set (Grier and Manger 1991; Kroszner and Straitsmann 1998).

2 The magnitude of a single variable, the conjectural variation, determines whether two firms act as if they are competitive firms, pricing at marginal cost, or if they act as a cartel, maximizing their profits as would a multiplant monopolist (see Waterson 1984 for a concise discussion).
2. The Standard Rent-Seeking Model

Following Tullock (1980), consider two agents competing for a private good with expenditures \( R_1 \) and \( R_2 \) and success probabilities

\[
P_1 = \frac{R_1^\sigma}{R_1^\sigma + R_2^\sigma} \quad \text{and} \quad P_2 = \frac{R_2^\sigma}{R_1^\sigma + R_2^\sigma},
\]

where \( P_1 + P_2 = 1 \), which implies that one agent must win. \( \sigma \) indicates "returns to scale" in expenditures; for example, if \( \sigma > 1 \), then an increase in \( R_i \) causes a more than proportionate increase in agent \( i \)’s probability of winning. If \( \sigma \) is the same for both agents, then the game is "unbiased": the agents are equally suited to rent seeking. Tullock reasoned that if \( \sigma = 2 \) and \( n = 2 \) in an unbiased game, then combined symmetric expenditures would equal the value of the prize. Following convention, we call this "exact dissipation." But if \( \sigma > 2 \) for two agents (or \( \sigma > n/(n - 1) \) for \( n \) agents), Tullock reasoned that total spending in an unbiased game will always exceed the value of the rent, and this usually will occur in biased games. This result is "overdissipation" and forms the basis of Tullock’s social waste argument.

Many game theorists were attracted to Tullock’s curious result, and most of the rent-seeking models that followed attempted to rule out overdissipation in equilibrium. New contributions emerged with increasing complexities, such as open-ended sequential games, uncertain prizes, risk-averse rent seekers, budget constraints, entry conditions, and various sharing rules for groups of winners. As a consequence, this literature formalized and generalized Tullock’s reasoning. By incorporating policymaker costs and political competition into the basic model, this paper formalizes the idea that rent seeking takes place within a political context that influences patterns of rent seeking and the outcomes observed (Tollison 1997). The model suggests a more politically realistic solution to overdissipation.

3. Rent Seeking with Policymaker Costs and Political Competition

In previous formulations of rent-seeking contests, players’ success probabilities are related only to their relative lobbying expenditures, regardless of the value of \( \sigma \). It has been noted in several places (e.g., Baye, Kovenock, and de Vries 1994; Che and Gale 1997) that if \( \sigma \) is finite, then the game is a lottery; and if \( \sigma \rightarrow \infty \), then the game is an all-pay auction. For any finite value of \( \sigma \), the chances of player \( i \)'s success increase directly with expenditures \( R_i \). In the lottery, the winner is selected according to probabilities; in the all-pay auction the winner is the highest bidder. Such an approach assumes a costless political process. In contrast, define \( N \in (0, \infty) \) as the monetized disutility to the policymaker of providing the rent. Thus conceived, the policymakers’ costs may be influenced by any number of institutional factors. For instance, \( N \) may depend on the political body that is lobbied. For middle-level regulatory waivers, there may be a small number of policymakers involved, little formal oversight, and negligible lobbying opposition—in this case \( N \) may be close to zero. Alternatively, for major legislative changes in which a winning coalition must form against powerful opposition and

\[\text{We refer to the class of games that follow the approach based on Tullock's (1980) lottery game as the “standard model.” We do not intend to implicate other branches of the literature that have incorporated politics such as the theory of regulation (Stigler 1971; Peltzman 1976; McCormick and Tollison 1981; Becker 1983) or various empirical approaches that are too numerous to list here (Tollison 1997 provides an up-to-date survey).}\]

\[\text{\( \sigma \) does not indicate returns to scale as usually defined, but we maintain this terminology of the literature.}\]

\[\text{For a compilation of this literature, see Lockard and Tullock (2001).}\]
re-election constraints, $N$ may be very high. Policymaker costs also could depend on the selection of a voting rule—majority rule would have a lower $N$ than would a supermajority rule. Stronger checks and balances also affect policymaker costs: for U.S. style judicial review, $N$ may be moderate, but for Swiss style legislative referendum, $N$ may be much higher (Moser 2000; Spindler and de Vanssay 2003). Individual policymakers can have different values of $N$, depending on their regulatory/parliamentary power over a policy (Denzau and Munger 1986; Grier and Munger 1991). Public perception may help to determine $N$ if it involves a policy that would attract substantial negative media attention to the policymaker(s).

Consider next the nature of competition among rent seekers. It may depend on the number of rent seekers and entry conditions, as demonstrated in many contributions to both the empirical and theoretical rent-seeking literature. However, political competition can also emerge among a given number of rent seekers. For example, two firms may compete for a single contract to produce tires for government vehicles. If only one firm can receive the contract, the success of a firm completely precludes the success of its rival. In this case, political competition is high. In contrast, suppose two defense contractors are lobbying to increase the price each receives for weapons sold to the government. If one firm’s success in obtaining a price increase has little impact on the probability that the other firm will also obtain an increase, then political competition is low. If, however, policymakers face a tight budget constraint, then one firm’s success can significantly affect the other firm’s probability of obtaining its objective, and the competition between them is higher. Nevertheless, competition would be less than between firms bidding for the same rent if only one can succeed. To introduce this concept of political competition into the model, we define $\alpha \in (0,1]$ as an index of competition that increases with the degree of competition in the contest.

For the moment, suppose that there are two players, Firm 1 and Firm 2, which incur expenditures $R_1$ and $R_2$ in lobbying to acquire a rent of value $V$ to each firm, and that $\sigma = 1$. We express the probabilities of success or failure for Firm $i$, where $i=1,2$ and, in the following, $i \neq j$, as

$$P_i = \frac{R_i}{R_i + \alpha R_j + N} = \text{probability that Firm } i \text{ receives the good;} \quad (1)$$

$$1 - P_i = \frac{\alpha R_j + N}{R_i + \alpha R_j + N} = \text{probability that Firm } i \text{ fails to receive the good}, \quad (2)$$

where it is possible that neither firm will succeed, and where $\alpha$ represents the degree of competition between the rent seekers. If $\alpha < 1$, there are four possible ex-post states of the world: (1) both firms may succeed in their lobbying; (2) both firms may fail; (3) Firm 1 may succeed and Firm 2 may fail; and (4) Firm 1 may fail and Firm 2 may succeed. The competition parameter $\alpha$ signifies the importance to Firm $i$ of Firm $j$’s lobbying expenditures. The higher $\alpha$ is, the more Firm $j$’s expenditure reduces Firm $i$’s probability of success. At the upper bound, if $\alpha = 1$ and Firm $i$ succeeds, then Firm $j$ will fail. Here there are three possible outcomes: (1) Firm 1 may win, in which case Firm 2 fails; (2) Firm 2 may win, so Firm 1 fails; and (3) both firms may fail. When $\alpha = 1$, the expenditure of a firm that increases its probability of success has a very deleterious effect on the other firm’s probability of winning. In contrast, if one firm’s success does not preclude the other firm’s success, $\alpha$ takes a value less than 1. For low lower bound, if $\alpha = \text{probability: because interested in rent-sic}$. Obviously, if a firm spends more than one; thus there a decrease in the probability that neither wins. Finall

4. The Model

We model tw returns from lobbying in expected profits, th

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ASSUMPTION 1

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\footnote{Different evaluations of the rent to the two firms are plausible but would not change our main results. We discuss the implications of different evaluations below. Similarly, we consider different values of $\sigma$ below.}

\footnote{If $\alpha = 1$, we have an extension of the standard game because, in that case, probability (2) is the sum of the probability that Firm $j$ receives the good, expressed as $R_j/(R_i + R_j + N)$, and the probability that neither firm receives the rent, expressed as $N/(R_i + R_j + N)$. Adding the probability that Firm $i$ receives the rent, expressed as $R_i/(R_i + R_j + N)$, we have three probabilities that sum to one. Alternatively, if $\alpha < 1$, each firm has a probability of success and a probability of failure. In this case, there are four probabilities.}

\footnote{The second derivative.
Politics, Competition, and Rent Seeking

4. The Model

We model two agents (viz., firms) in a simultaneous game. The firms maximize expected net returns from lobbying, which we refer to simply as "profits." Let \( V \) be the value of the rent to the firm. For now, we assume these benefits to be equal for both firms so that their problems are identical. We also assume that the firms are equally adept at lobbying. Thus, for \( i, j = 1, 2 \) each firm maximizes expected profits, the difference between expected returns and the cost of lobbying, by

\[
\max_{R_i} \prod_i = \left[ \frac{R_i}{R_i + \alpha R_j + N} \right] V - R_i,
\]

where the expenditure terms are linear. We need only include the probability of the firm succeeding in lobbying in expected profits. Thus Equation 3 expresses the expected profit in the less competitive case, where \( \alpha = 0 \), as well as in the highly competitive case, where \( \alpha = 1 \), despite the different numbers of ex-post states of the world. The first-order condition equates marginal expected returns to marginal cost, so

\[
\frac{\partial \prod_i}{\partial R_i} = \left[ \frac{\alpha R_j + N}{(R_i + \alpha R_j + N)^2} \right] V - 1 = 0.
\]

The second derivative is negative, so the solution to Equation 4 maximizes profits.\(^8\) Of course, if the value of \( V \) were small enough relative to political costs \( N \), then firms would not lobby. We make the following assumption.

**Assumption 1:** \( V > N \).

This will be sufficient to ensure that the firms have the incentive to make expenditures in seeking the rent.

Equation 4 implicitly yields the profit-maximizing level of \( R_i \); and defining the set containing any \( R_i \geq 0 \) that satisfies profit maximization as the firm's best reply, \( \rho_i \), results in the best reply function

\[
\rho_i = \begin{cases} \sqrt{(\alpha R_j + N) V - \alpha R_j - N} & \text{for } 0 \leq R_i \leq \frac{(V - N)}{2}, \\ 0 & \text{for } \frac{(V - N)}{2} < R_i. \end{cases}
\]

The proof that Equation 5 is the best reply function is in Appendix A. There, we show that \( \Pi_i \geq 0 \) on Equation 5, so the profit-maximizing firm does not incur an expected loss on the best reply function.

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\( ^8 \) The second derivative is \(-2(\alpha R_j + N)/(R_i + \alpha R_j + N)^3) V < 0 \) because \( R_i \geq 0 \) and \( V, \alpha, N \) are all positive.
and that the best reply function is strictly concave over $R_j \leq (V - N)/\alpha$, which is useful later in establishing equilibrium.

In Appendix B we show that the exact shape of Firm $i$'s best reply function depends on the value of $V$ relative to $N$. For $V \leq 4N$ (so the value of the rent is relatively small compared with policymakers' costs), $\rho_i$ is monotonically decreasing in $R_j$, and the firm would reduce lobbying expenditures as its rival's expenditures increase; in essence acquiescing to its rival because the rent is not worth the fight. But if $V > 4N$, then $\rho_i$ has an interior maximum at $R_j = (V - N)/\alpha$, so if the rent is relatively valuable there is a range over lower levels of the rival's expenditures in which the firm's expenditures increase with that of its rival's. The firm is willing to challenge the rival to gain the relatively valuable rent.9

Because the shape of $\rho_i$ depends on the relative values of $V$ to $N$, equilibrium also depends on the relative values. In Appendix C, we provide existence and uniqueness proofs for the equilibrium when $V \leq 4N$.10 For all $V > 4N$, there likely exists a unique equilibrium, but we can only prove uniqueness for $4(1 + \alpha)/\alpha^2 N > V > 4N$. It is possible that three equilibria might exist if $V$ is even larger than $4(1 + \alpha)/\alpha^2 N$, but we have been unable to construct a numerical example of such a game, and we doubt that one exists. Examples of best reply functions and equilibria are shown in Figure 1, where Figure 1A has $V < 4N$, Figure 1B has $4((1 + \alpha)/\alpha)^2 N > V > 4N$, and Figure 1C has $V > 4(1 + \alpha)/\alpha^2 N > 4N$, with a unique equilibrium. Stability is indicated by the directional arrows in the figures. Figure 1D shows the possibility of multiple equilibria, but the arrows indicate that the symmetrical equilibrium is the only stable equilibrium.

In Appendix D, we show that Firm $i$'s lobbying expenditure in a symmetrical equilibrium is

$$\rho_e = \frac{\sqrt{4(1 + \alpha)NV + \alpha^2 V^2 + \alpha V - 2(1 + \alpha)N}}{2(1 + \alpha)^2},$$  \hspace{1cm} (6)

where the $e$ subscript denotes equilibrium. By substituting Equation 6 into the profit Equation 3, we can express equilibrium firm profit as

$$\Pi_i = \left[ \frac{\rho_e}{\rho_e + \alpha \rho_e + N} \right] V - \rho_e,$$  \hspace{1cm} (7)

where $\rho_e = \rho_e(V, N, \alpha)$ for both firms.

5. Comparative Statics

We next consider the comparative statics of expenditures and profits with respect to competition. First, we show the effect of competition on equilibrium lobbying expenditures. In Appendix E we prove

**Theorem 1:** (1) If $V/4 \leq N$, then $\partial \rho_e/\partial \alpha < 0$ at all levels of $\alpha \in (0, 1]$. (2) If $V/4 > N$, then $\partial \rho_e/\partial \alpha$ is greater than, equal to, or less than 0 as $\alpha$ is less than, equal to, or greater than $(V - 4N)/V$ or, equivalently, as $(1 - \alpha)V/4$ is greater than, equal to, or less than $N$.

This suggests that if the value of the rent is sufficiently small relative to $N$, then equilibrium

---

9 These changes in the firm's expenditures are hypothetical, being based on its rival's action. The equilibrium is static, but the intuition concerning the shape of the reaction function seems reasonable and lends credence to the model.

10 We cannot use the existence and uniqueness proofs from Esteban and Ray (1999), which depend on a thrice continuously differentiable, strictly concave cost function. In this section, cost is linear.
is useful later in 
the model. It depends on the value of a rent relative to policymakers' expenditures as its equilibrium, not worth the fight.

relative valuable rent also depends on the number of firms in the equilibrium when lobby-ers prove uniqueness is even larger than in such a game, and we notice in Figure 1, where has $V > 4(1 + \alpha)/aN$ rows in the figures.

that the symmetrical equilibrium is

(6)

ofit Equation 3, we have

(7)

lobbying expenditures will fall as competition increases, while if $V$ is sufficiently large relative to $N$, then there is a range where $N$ is sufficiently small that equilibrium lobbying expenditures will rise as competition increases before they begin to fall at higher levels of competition. In Figure 1A, $V/4 < N$, and in Figure 1B, $(1 - \alpha)V/4 < N$, so the equilibrium would move toward the origin if $\alpha$ increases. In these images, lobbying expenditures are strategic substitutes in the neighborhood of equilibrium. In Figure 1C, $(1 - \alpha)V/4 > N$, where expenditures are strategic complements in the neighborhood of equilibrium, the equilibrium would move away from the origin. Intuitively, one might expect that as competition increases, so would the equilibrium lobbying expenditures. This view finds support in some previous models that rely on the number of firms or entry conditions to model competition (Posner 1975; Rogerson 1982; Sun and Ng 1999). Our model, however, predicts that the effect of competition depends on the value of the rent relative to the

Figure 1A: Case of $V < 4N$
where $V = 100; N = 30; \alpha = 3/4$

$R_1$

$R_2$

Figure 1B: Case of $4(1 + \alpha)/\alpha^2N > V > 4N$
where $V = 100; N = 12; \alpha = 2/3$

$R_1$

$R_2$

Figure 1C: Case of $V > 4(1 + \alpha)/\alpha^2N > 4N$
where $V = 100; N = 1; \alpha = 1/3$

$R_1$

$R_2$

Figure 1D: Possible Case of $V > 4(1 + \alpha)/\alpha^2N > 4N$?
Unproven Possibility of Multiple Equilibria

$R_1$

$R_2$
political costs of supplying the rent. Greater competition decreases expenditures if \( V \leq 4N \) and for lower levels of \( \alpha \) where \( V > 4N \). This result is in line with empirical research in political science, which indicates that firms lobby policymakers on issues with a low \( N \), such as requesting a rent that is consistent with the officials' ideology and/or constituency interests or has low visibility, and on issues over which there is little competition (small \( \alpha \)) (Lowi 1969; Browne 1995; Wolpe and Levine 1996). This also reflects the empirical result in economics that campaign contributions are more likely to "buy votes" on narrow issues with concentrated benefits and dispersed costs than on broader issues (Stratmann 1991, 1995). In other words, firms look for issue niches where their rent-seeking activities are unlikely to conflict with other firms' activities, and the granting of the good will not offend other interests (Evans 1991; Hojnacki and Kimball 1998). Finally, this parallels earlier theoretical results that the dissipation rate can decrease as the number of firms increases (e.g., Baye, Kovenock and de Vries 1993). Greater competition causes an increase in spending only when the rent is very valuable compared with the political costs involved.

Next, we consider the effect of competition on expected profits. The envelope theorem is not applicable (Nti 1997). In Appendix F we show that if \( V \) is sufficiently large relative to \( N \), then \( \partial \Pi / \partial \alpha \) is unambiguously negative. Beyond this it becomes difficult to sign \( \partial \Pi / \partial \alpha \), but numerous graphs of equilibrium profit for many relative values of \( V \) and \( N \) invariably show the profit to be decreasing in \( \alpha \) and strictly convex over \( \alpha \in (0, 1) \).

6. Dissipation When \( \sigma = 1 \)

In the standard model, underdissipation occurs if \( \sigma = 1 \). Baye, Kovenock, and de Vries (1994) showed that if \( \sigma = 1 \), the equilibrium dissipation rate is \( V(n - 1)/n \), or simply \( V/2 \) in the two-player case. In contrast, our model predicts less than 50\% dissipation almost everywhere on the best reply function. To see this, first note that the two firms' combined lobbying expenditures sum to

\[
\rho_T = 2\rho_r = \frac{\sqrt{4(1 + \alpha)NV + \alpha^2N^2} + \alpha V - 2(1 + \alpha)N}{(1 + \alpha)^2},
\]

so the derivative of the firms' total lobbying expenditures with respect to \( N \) is

\[
\frac{\partial \rho_T}{\partial N} = \frac{2(1 + \alpha)V(\sqrt{4(1 + \alpha)NV + \alpha^2N^2})^{-1} - 2(1 + \alpha)}{(1 + \alpha)^2}.
\]

The second derivative is obviously negative because \( N \) appears only in the inverted radical in the numerator of Equation 8, so the derivative is strictly concave in \( N \). Then \( \partial \rho_T/\partial N = 0 \) (so \( \rho \) reaches a maximum) when the numerator equals zero. At this point, \( N = (1 - \alpha)V/4 \geq 0 \).

Given the preceding, we prove that total lobbying expenditures are less than \( V/2 \) almost everywhere.

**Theorem 2:** For any \( N \) and \( \alpha \), the firms' total lobbying expenditures, \( \rho_T = 2\rho_r \), are less than \( V/2 \) everywhere except at the point where \( N = (1 - \alpha)V/4 \).

---

11 Nu (1997) completely derived comparative statics for a game similar to ours, but he was able to do so because he did not have nonmonotonocities in the derivatives of expenditures with respect to the parameters.

12 To see this, set the numerator of Equation 8 equal to zero and simplify to get \( Vf(4(1 + \alpha)NV + \alpha^2N^2)^{-1/2} \). From this, it follows that \( V = 4(1 + \alpha)NV + \alpha^2N^2 \Rightarrow N \geq V(1 - \alpha)V/4 \geq 0 \).
if \( V \leq 4N \) and for political science, which are more likely to be broader in nature and entail rent-seeking activities that will not offend other policymakers. The theoretical results of Kovenock and de Vries (1994) show that the property theorem is not applicable in this case, but \( \alpha \) is very valuable in other cases.

The theorem is not applicable in the two-player case on the best reply for some values of \( \alpha \). Numerous graphs of the dissipation rate \( \rho_{T}/V \) are decreasing in \( N \).

\[
\alpha = 0, \quad \alpha = 1
\]

Figure 2. Dissipation rate as a function of policymakers' costs for various values of \( \alpha \).

The results are highly intuitive. Policymakers with low costs require relatively small rent-seeking outlays as long as the level of competition is low. As policymakers' costs increase, however, so must lobbying. But for sufficiently high policymaker costs, where \( N \geq (1 - \alpha)V/4 \), continued lobbying efforts become less profitable. Firms' expenditures decline to zero as \( N \to V \). This reflects the property that lobbying a legislator with parliamentary rights over a policy area is worth more than lobbying other legislators. Similarly, agents are less likely to lobby policymakers with a predisposition against the policy.

We derived our preceding results under the assumption that benefits are equal for both firms.

\[\rho_{T}/V \text{ is the dissipation rate, and } V = 100. \text{ Each curve corresponds to a different } \alpha.\]

Note: In other words, because \( N \) and \( V \) are continuous real variables, the a priori probability of \( N \) being equal to \((1 - \alpha)V/4\), so firms spend as much as in the standard model, is zero.
Unequal benefits would result in unequal profits and expenditures (the firm with the higher valuation would spend more). However, this would not damage our qualitative results as long as we change Assumption 1 to

**Assumption 2:** \( \min \{ V_1, V_2 \} > N \).  

7. Cases of \( \sigma > 1 \) and \( \sigma > 2 \): Increasing Returns

As discussed in Section 2, the case of \( \sigma > n/(n-1) \) drew attention in the literature following Tullock (1980) because total spending exceeded potential rents. Baye, Kovenock, and de Vries (1999) suggested that spending zero dominates such an equilibrium, and showed that the standard game has a pure-strategy equilibrium if and only if \( \sigma > n/(n-1) \). However, overdissipation occurs in mixed strategies roughly half the time (Baye, Kovenock, and de Vries 1999). To consider increasing returns in the model incorporating politics, we generalize the profit maximization problem to

\[
\max_{R_i} \Pi_i = \left[ \frac{R_i^{\sigma}}{R_i^{\sigma} + \alpha R_j^{\sigma} + N} \right] V - R_i, \quad \text{where} \ \sigma > 1. \tag{9}
\]

As in previous literature, we restrict attention to cases where \( \sigma \) is an integer. The first-order condition is

\[
\frac{\partial \Pi_i}{\partial R_i} = \left[ \frac{\sigma R_i^{\sigma-1}}{R_i^{\sigma} + \alpha R_j^{\sigma} + N} \right] V - \left[ \frac{\sigma R_i^{2\sigma-1}}{(R_i^{\sigma} + \alpha R_j^{\sigma} + N)^2} \right] V - 1 = 0. \tag{10}
\]

To determine the reaction function, we might rearrange the first-order condition to obtain \( R_i \) as a function of \( R_j \). This results, however, in a complicated quartic function. Instead, we prove in Appendix H that the first-order condition implicitly defines \( R_i \) as a function of \( R_j \), except possibly at a point of measure zero. This implicit function can conceptually be rearranged to an explicit form of \( \Pi_i \)’s reaction function. A symmetrical equilibrium would require that

\[
\frac{\sigma (\alpha R_j^{\sigma} + N) R_i^{\sigma-1}}{(R_i^{\sigma} + \alpha R_j^{\sigma} + N)^2} V - 1 = 0 \tag{11}
\]

and 

\[
R_1 = R_2 > 0 \ \text{with} \ \Pi_1 = \Pi_2 \geq 0 \tag{12}
\]

so the firms are maximizing profit (by Eqn. 11), where expenditures are positive and profits are nonnegative (by Conditions 12). Consider a case where \( \sigma = 2, n = 2, V = 100, N = 25, \alpha = 1/3, \) and \( R_1 = R_2 \). Figure 3 plots the graph of Equation 11 between \( R_1 = R_2 = 0 \) and \( R_1 = R_2 = 100 = V \). There is only one positive \( R_i \) where the first-order condition is satisfied and \( R_1 = R_2 > 0 \). Closer inspection reveals that the equilibrium \( R_i \) falls between 38.42 and 38.43. At these values, the expected profits are 27.50 and 27.49. Thus, Equation 11 and Conditions 12 are satisfied, and we have found a symmetrical Nash equilibrium in pure strategies. In this equilibrium the rent is approximately 76.85% dissipated.

We perform the same operations for a case where \( \sigma = 3, n = 2, V = 100, N = 25, \alpha = 1/4, \) and \( R_1 = R_2 \).

---

14 The Implicit Function Theorem gives sufficient, but not necessary, conditions for a function to exist. Failure of the conditions at a single point does not mean that a function cannot exist at that point (Chiang 1984). Moreover, because the theorem fails only at a point of measure zero, the function certainly exists around neighborhoods at all other points.

15 Recall that firms would certainly spend no more than \( R_1 = R_2 = V \).

16 At \( R_1 = 38.42, \frac{\partial \Pi_i}{\partial R_i} = 0.00006, \) while at \( R_1 = 38.43, \frac{\partial \Pi_i}{\partial R_i} = -0.00019, \) so we have found the neighborhood of a maximum.
with the higher valuation
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nor
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ual game has

(9)

(10)

(11)

(12)

Note: \( \frac{\partial \Pi}{\partial R_t} \) is the first order condition, which is the implicit reaction function. The symmetric equilibrium is found by setting \( R_1 = R_2 \).

Figure 3. Determining a symmetric equilibrium when \( \sigma = 2, n = 2, V = 100, N = 25, \) and \( \alpha = 1/3 \).

\( R_2 \). Figure 4 graphs the first-order condition. Here, the equilibrium \( R_t \) falls between 48.02 and 48.03, with corresponding profits of 31.97 and 31.96, and the dissipation rate is approximately 96.05%. Thus, with policymaker costs and political competition incorporated into the standard game, a symmetrical Nash equilibrium in pure strategies exists with underdissipation of rents, even for \( \sigma > n/(n-1) \).

8. Conclusion

The approach outlined here emphasizes the politics involved in rent-seeking games. Adding policymaker costs and offering an alternative conceptualization of competition between firms provide greater verisimilitude to the political process and a more reasonable approximation to the question of how firms allocate resources to rent seeking.

Intuitively, incorporating politics serves to generalize the standard rent-seeking model. As we discussed regarding Equations 1 and 2, the standard model is a special case of our model. Incorporating policymaker costs \( N \) and political competition \( \alpha \) fundamentally alters the game's underlying success probabilities, which changes the way firms behave in the model. This leads to very different conclusions regarding lobbying behavior and the social costs of rent seeking. For example, our Theorem 1 indicates that firms will avoid political competition in many cases, rather than spend

---

17 Again, by "standard model" we refer to the class of games that follow the approach based on Tullock's (1980) lottery model of rent seeking.
more under greater competition. In fact, our model finds that dissipation rates are generally lower than the standard model suggests (Theorem 2), even under increasing returns to rent-seeking expenditures as shown in section 7. Much of what has followed Tullock's seminal contribution consists of mathematically elegant extensions that generate politically complicated results. The model we advance is much simpler. In its results, we see that the political context helps to determine the strategies that firms will use, as well as the likely outcomes of rent-seeking expenditures.

In short, as the policy that embodies the rent is more costly for policymakers to pass, ceteris paribus, rent seekers are less likely to win the rent and will be less interested in lobbying for it. Rent seekers will similarly avoid lobbying where there are intense counteracting efforts from other interests—expected profits are higher where political competition is lower. In addition, political costs and competition will dissuade rent seekers from spending more to win a prize than the value of the prize itself.

Appendix A: The Best Reply Functions

Rearranging Equation 4 yields the profit-maximizing level of $R_i$ as a function of $R_j$ and exogenous variables:

$$R_i = \sqrt{(xR_j + N)V - xR_j - N}. \quad (A1)$$

From Equation A1, note that (1) $R_i > 0$ if $R_j$ is sufficiently low that it pays Firm $i$ to lobby; (2) $R_i = 0$ at a sufficiently high $R_j$; and (3) $R_i < 0$ for even higher $R_j$, which is not feasible because $R_i \geq 0$. We restrict analysis to $R_i, R_j \geq 0$. We next establish that the $R_i$ and $R_j$ intercepts of Equation A1 are positive. Then, because Equation A1 is obviously continuous, we know that the best reply function passes through the first quadrant in $R_i - R_j$ space. It follows that for $N \in (0, \infty)$, there are points of Equation A1 at which $R_i$ and $R_j$ are both positive. From Equation A1, the $R_i$ and $R_j$ intercepts are

$$R_i = \frac{V}{2} - \frac{N}{2}, \quad (A2)$$

$$R_j = \frac{V}{2} - \frac{N}{2}. \quad (A3)$$

Note: $\partial \Pi/\partial R_i$ is the first order condition, which is the implicit reaction function. The symmetric equilibrium is found by setting $R_1 = R_2$.

Figure 4. Determining a symmetric equilibrium when $\sigma = 3$, $n = 2$, $V = 100$, $N = 25$, and $\sigma = 1/4$.

Appendix B: The

We show that $p_i$ is increasing in $V$ and $N$. Two lemmas are

**Lemma B1.** Firm $i$'s

**Proof.** The first derivative is:

$$\frac{\partial p_i}{\partial V} = \frac{1}{2} \frac{V}{R_i^2} - \frac{1}{2} \frac{N}{R_i}$$

which is clearly negative. 1

**Lemma B2.** If $V \leq 4$

**Proof.** The slope of
The symmetric rally lower thanng expenditures onion consists of The model we determine theures. ceteris paribus, it. Rent seekers her interests—costs and com­the prize itself.

\[
R_i\big|_{x_u} = \frac{\sqrt{NV} - N}{x}
\]

and \[
R_i\big|_{x_a} = \frac{V - N}{x}.
\]

**Lemma A1.** The \( R_i \) and \( R_j \) intercepts of Equation A1 are positive. Furthermore, the \( R_i \) intercept is less than the \( R_j \) intercept.

**Proof.** By Assumption 1, \( V > N \), hence \( \sqrt{NV} - N > 0 \), so the \( R_i \) intercept is positive. \( V - N > 0 \) and \( x > 0 \) \( \Rightarrow \) \( (V - N)x > 0 \), so the \( R_j \) intercept is positive. Because \( x \in (0, 1) \), we have

\[
\frac{V - N}{x} > \frac{\sqrt{NV} - N}{x} \geq \sqrt{NV} - N. \quad QED.
\]

We next establish Firm i's willingness to invest in lobbying according to Equation 5 in the paper.

**Lemma A2.** Firm i's profit is nonnegative on Equation A1 for \( R_i \in [0, \sqrt{NV} - N] \).

**Proof.** Expected profit is

\[
\Pi_i = \left[ \frac{R_i}{R_i + N} \right] V - R_i.
\]

Obviously, if \( R_i = 0 \), then \( \Pi_i = 0 \). Next, consider \( R_i \in (0, \sqrt{NV} - N] \). Rearranging Equation A4, we see that profit is nonnegative if \( V - \alpha R_i - N \geq R_i \), which by Equation A1 can be expressed as \( \sqrt{\alpha V} - N = \alpha R_i - N \). So profit is nonnegative if

\[
V \geq \sqrt{\alpha (V - N) } V.
\]

We complete the proof by showing that Equation A5 holds on Equation A1. The right side of Equation A5 increases in \( R_i \), which reaches a maximum of \( (V - N)/\alpha \) in the interval of this lemma. Then, because \( (V - N)/\alpha \geq R_i \),

\[
\sqrt{\alpha (V - N)/\alpha + N} V = V \geq \sqrt{\alpha (R_i + N)V}. \quad QED.
\]

Defining the set of \( R_i \) values that satisfy Equation A1 as \( p_i \), we have proven

**Theorem A1.** The best reply function of Firm 1 is

\[
\rho_i = \begin{cases} 
\sqrt{(\alpha R_i + N)V} - \alpha R_i - N & \text{for } 0 \leq R_i \leq \frac{(V - N)}{\alpha} \\
0 & \text{for } \frac{(V - N)}{\alpha} < R_i 
\end{cases}
\]

**Appendix B: The Shape of the Best Reply Functions**

We show that \( \rho_i \) is strictly concave over \( R_i \in [0, (V - N)/\alpha] \), but that its exact shape depends on the relative magnitudes of \( V \) and \( N \). Two lemmas prove these conjectures and will be useful later.

**Lemma B1.** Firm i's best reply function is strictly concave over \( R_i \in [0, (V - N)/\alpha] \).

**Proof.** The first derivative of \( \rho_i \) with respect to \( R_i \) is

\[
\frac{\partial \rho_i}{\partial R_i} = \frac{-\alpha \sqrt{V}}{2 \sqrt{\alpha R_i + N}} - \alpha
\]

and the second derivative is therefore

\[
\frac{\partial^2 \rho_i}{\partial R_i^2} = \frac{-\alpha^2 \sqrt{V}}{4 \sqrt{\alpha (R_i + N)^3}},
\]

which is clearly negative. Therefore, \( \rho_i \) is strictly concave. \( QED. \)

**Lemma B2.** If \( V \leq 4N \), then \( \rho_i \) is monotonically decreasing over \( R_i \in [0, (V - N)/\alpha] \). If \( V > 4N \), then \( \rho_i \) has an interior maximum at \( R_i = (V - N)/2\alpha \), which is in the interior of \( [0, (V - N)/\alpha] \).

**Proof.** The slope of \( \rho_i \) is given by \( \partial \rho_i / \partial R_i \). Rearranging Equation B1, we see that
symmetrical, so in equilibrium
On the other hand, we can apply the contraction theorem to special cases where
While we know that the derivative is greater than 0, we have no upper bound for it. Certainly, for some cases the derivative will
be less than \( \frac{\sqrt{V}}{2(N-\alpha)} \).

Suppose \( V < 4 \left( \frac{1}{V^2} \right)^2 N \), the
Thus, on the upward sloping for this function under the \( \alpha \)
We do not prove unis

Appendix C: Equilibrium
We must establish the existence of equilibria because games with infinite strategy sets may not have an equilibrium (Morrow 1994). We first note the following: (1) the strategy space \( R_i \in [0, V] \) for \( i = 1, 2 \) are compact and convex; (2) the expected profit function \( \Pi_i = [R_i(R_i + 2\alpha + N)]V - R_i \) is defined, continuous, and bounded on the strategy sets; and (3) \( \Pi_i \) is strictly concave in \( R_i \), because \( \partial^2 \Pi_i / \partial R_i^2 \). For Theorem 1, we established
Theorem 1. The game has at least one Nash equilibrium.

Proof. The profit function is concave, hence it is also quasiconcave. This, together with points (1) and (2) above, satisfies the conditions for a well-known existence proof for Nash equilibrium (Fudenberg and Tirole 1995). QED.

Thus, there exists at least one Nash equilibrium. However, it is possible that multiple equilibria exist. We therefore consider uniqueness. To this end, we establish
Theorem 2. If \( V \leq 4N \), then there is a unique Nash equilibrium for the game. Furthermore, the equilibrium is symmetric, so in equilibrium \( \rho_i = \rho_r \).

Proof. By Theorem 3.4 of Friedman (1990), and given points 1 and 2 above, a unique equilibrium exists as long as the best reply functions are contractions. In our game, the best reply functions, Equation 5, do not contain \( R_i \) on the right side. Thus, because the best reply functions are symmetrical, they are contractions if the value of \( \partial \rho_i / \partial R_i \) for Equation 5 is less than one. Suppose \( V \leq 4N \), then, by Lemmas B1 and B2, \( \rho_i \) is monotonically decreasing and strictly concave. Hence, \( \partial \rho_i / \partial R_i \leq 0 \) and reaches its minimum value at the largest possible value of \( R_i \), where \( R_i = (V - \alpha)/2 \). Substituting this into Equation 5, we get
We get
Equation B1, we establish

Theorem 3. If \( 4 \left( \frac{1}{V^2} \right)^2 N > V > 4N \), there is a unique Nash equilibrium for the game. The reaction functions are symmetrical, so in equilibrium \( \rho_i = \rho_r \).

Proof. This is not a vacuous case, because \( (1 + \frac{\alpha}{2})/a > 1 \). By Theorem 3.4 of Friedman (1990), we must show that the best reply function is a contraction. For the decreasing portion of the best reply function, Theorem C2 indicates that \( |\partial \rho_i / \partial R_i| < 1 \). On the increasing portion, \( \partial \rho_i / \partial R_i \geq 0 \); and the largest value of \( \partial \rho_i / \partial R_i \) occurs at \( R_i = 0 \), where, by Equation B1,

To analyze the effect respect to \( a \). After consider

In the following, we consider

Lemma E1. If \( a = 1 \),
Proof. Suppose \( a = \frac{4N}{\sqrt{V^2 + 8}} \).
Because the denominator of
Lemma E2. As \( a \to 0^+ \), a negative limit if and only
Proof. To prove state intermediate result that \( \Omega =
We do not prove uniqueness if $V > 4 \left(\frac{1}{2}\right)^2 N$, but the only stable equilibrium is symmetrical (see text).

Appendix D: Equilibrium Lobbying Expenditures

We determine the optimal investment at the symmetrical equilibrium. Let $p_0 = p = p_r$, so $p_r$ satisfies

$$p_r = \sqrt{(\alpha p_r + N) V} - 2p_r - N$$

for $p_r \in [0, (V - N)/\alpha]$.

Rearranging terms, we get $(1 + \alpha)p_r + N = \sqrt{(\alpha p_r + N) V}$ or

$$(1 + \alpha)^2 p_r^2 + 2(1 + \alpha)Np_r + N^2 = (\alpha p_r + N)V = \alpha p_r V + NV.$$ 

From the quadratic equation,

$$p_r = \frac{2V - 2(1 + \alpha)N \pm \sqrt{(2(1 + \alpha)N - 2\alpha V)^2 - 4(1 + \alpha)^2(N^2 - VN)}}{2(1 + \alpha)^2}.$$ 

where it can be shown that

$$2(1 + \alpha)N - 2\alpha V)^2 - 4(1 + \alpha)^2(N^2 - VN) = \alpha^2 V^2 - 4(1 + \alpha)N^2.$$ 

we get

$$p_r = \frac{2V - 2(1 + \alpha)N \pm \sqrt{\alpha^2 V^2 + 4(1 + \alpha)N^2}}{2(1 + \alpha)^2}.$$ 

The sign of the term under the radical is greater than $\alpha^2 V^2$, so we disregard the solution where the radical is subtracted because it would yield a negative $p_r$, and we are left with Equation 6 in the text.

Appendix E: Proof of Theorem 1

To analyze the effect of competition on equilibrium lobbying expenditures, we take the derivative of Equation 6 with respect to $\alpha$. After considerable manipulation, we find that

$$\frac{\partial p_r}{\partial \alpha} = \frac{2(1 + \alpha)N + (1 - \alpha)V}{2(1 + \alpha)^2 \sqrt{\alpha^2 V^2 + 4(1 + \alpha)N^2} + \alpha(1 - \alpha)V^2 - 6(1 + \alpha)VN}.$$ 

In the following, we concentrate on the numerator because the denominator is positive under our assumptions. Recall, in what follows, that $\alpha \in (0,1]$. Define the numerator as $\Omega$.

**Lemma E1:** If $\alpha = 1$, then $\partial p_r / \partial \alpha < 0$.

**Proof.** Suppose $\alpha = 1$, then $\Omega = 4N\sqrt{V^2 + 8VN - 12VN}$. Because $N < V$ by Assumption 1.

$$4N\sqrt{V^2 + 8VN - 12VN} < 4N\sqrt{V^2 + 8VN - 12VN} - 4N\sqrt{V^2 - 12VN} = 12VN - 12VN = 0.$$ 

The denominator of $\partial p_r / \partial \alpha$ is positive, $\partial p_r / \partial \alpha < 0$. QED.

**Lemma E2:** As $\alpha \to 0^+$, $\partial p_r / \partial \alpha$ approaches (1) a positive limit if and only if $V/4 > N$; (2) zero if and only if $V/4 = N$; and (3) a negative limit if and only if $V/4 < N$.

**Proof.** To prove statement 1 of Lemma E2, we show that $\Omega > 0 \Leftrightarrow V/4 > N$. In doing this, we prove statement 2 by an intermediate result that $\Omega = 0 \Leftrightarrow V/4 = N$. Suppose $\alpha \to 0^+$, then $\Omega$ approaches $\lim_{\alpha \to 0^+} [\sqrt{4VN} - 6VN] > 0$ and

$$[V + 2N] \left[ \frac{1}{\sqrt{4VN}} - \frac{1}{6VN} \right] > 0 \Leftrightarrow |V + 2N| \left[ \frac{1}{\sqrt{4VN}} - \frac{1}{6VN} \right] > 0.$$
Divide both sides of the inequality by \( V + 2N > 0 \) to see that the latter holds if and only if
\[
\frac{\sqrt{4VN}}{V + 2N} > \frac{6VN}{V + 2N} \Leftrightarrow 4VN > \frac{36VN^2}{(V + 2N)^2} = \frac{36VN^2}{V^2 + 4VN + 4N^2} \Leftrightarrow 4VN + 16VN^2 + 16VN^2 > 36VN^2.
\]

Divide through the last inequality by \( 4VN \) and rearrange terms to get
\[
V^2 + 4VN + 4N^2 > 9VN \Rightarrow V^2 - 5VN + 4N^2 > 0.
\]

The last quadratic equation is strictly convex, so the solutions to the inequality for \( N \) lie outside the solutions of the quadratic equality. The solutions are \( N = V \) and \( V/4 = N \). Because \( V > N \) by Assumption 1, we have proved statement 2 of the lemma: \( \partial p_1/\partial a = 0 \) if and only if \( V/4 = N \). Continuing the proof of statement 1, either \( V < N \) or \( V/4 > N \). Again, the former is contrary to Assumption 1, so \( \partial p_1/\partial a > 0 \) if and only if \( V/4 > N \). Similar reasoning proves that, because \( V > N \) by assumption, \( \partial p_2/\partial a < 0 \) if and only if \( V/4 < N \). QED.

Lemma E2 states that \( \partial p_1/\partial a \) approaches zero if \( V/4 = N \), but it will not equal zero because \( a > 0 \).

**Lemma E3.** \( \partial p_1/\partial a = 0 \) if and only if \( a = (V - 4N)/V = (1 - a)V/4. \)

**Proof.** Because \( N = (1 - a)V/4 \) or \( 4VN = 1 - a < 1 \), such a \( N \) exists if and only if \( V > 4N \). We show that the only solution for \( \Omega = 0 \) under our assumptions occurs where \( N = (1 - a)V/4 \Leftrightarrow a = (V - 4N)/V \). Thus,
\[
(1 - a)V + 2(1 + a)N = \sqrt{a^2V^2 + 4(1 + a)V^2} + a(1 - a)V^2 - 6(1 + a)VN - 0 \]
\[
\Leftrightarrow (1 - a)V + 2(1 + a)N = -a(1 - a)V^2 + 6(1 + a)VN.
\]

Squaring both sides of the last equation and expanding the terms yields
\[
a^2(1 - a)^2V^4 + 4a^2(1 + a)(1 - a)V^4N + 4a^2(1 + a)^2V^4N^2 + 4(1 + a)(1 - a)V^4N + 16(1 + a)^2V^4N^2 + 16(1 + a)^2V^4N^2
\]
\[
= a^2(1 - a)^2V^4 - 12a^2(1 + a)(1 - a)V^4N + 36(1 + a)^2V^4N^2.
\]

Subtracting \( a^2(1 - a)^2V^4 \) from both sides of the equality, dividing by \( (1 + a)V/N \), and then subtracting the right side from both sides and simplifying, we get
\[
(1 - a)V^2 + (a - 5)VN + 4N^2 = 0.
\]

Solving the quadratic equation for \( N \), we find that \( N = (1 - a)V/4 \) or \( N = V \). The latter contradicts Assumption 1, so \( N = (1 - a)V/4 \). QED.

We now proceed to the proof of

**Theorem 1.** (1) If \( V/4 \leq N \), then \( \partial p_1/\partial a < 0 \) at all levels of \( a \) in \( (0,1) \). (2) If \( V/4 > N \), then \( \partial p_1/\partial a \) is greater than, equal to, or less than 0 as \( a \) is less than, equal to, or greater than \( (V - 4N)/V \), respectively, as \( (1 - a)V/4 \) is greater than, equal to, or less than \( N \).

**Proof.** (1) Suppose \( V/4 \leq N \). By Lemma E1, \( \partial p_1/\partial a \bigg|_{a=1} < 0 \); and by Lemma E2, \( V/4 \leq N \Rightarrow \lim_{a \to 0} \partial p_1/\partial a \leq 0 \). By Lemma E3, \( \partial p_1/\partial a = 0 \Rightarrow \partial p_1/\partial a = (V - 4N)/V \Rightarrow N = (1 - a)V/4 \). But by the assumption of part 1 of Theorem 1, \( N \geq V/4 > (1 - a)V/4 \), so \( \partial p_1/\partial a \neq 0 \) in the interior of \( a \in (0,1) \) if \( V/4 \leq N \). Therefore, if \( V/4 \leq N \), the derivative is never so high as 0. The derivative is obviously continuous, so if \( V/4 \leq N \), then \( \partial p_1/\partial a \leq 0 \) if \( a \in (0,1) \). (2) Suppose \( V/4 > N \). By Lemma E1, \( \partial p_1/\partial a \bigg|_{a=1} < 0 \); and by Lemma E2, \( V/4 > N \Rightarrow \lim_{a \to 0} \partial p_1/\partial a > 0 \). If \( V/4 > N \), there exists an \( a \in (0,1) \) such that \( V/4 > (1 - a)V/4 > N \) by the continuity of \( a \). Hence, if \( V/4 > N \), then \( \partial p_1/\partial a \) is greater than, equal to, or less than 0 as \( a \) is less than, equal to, or greater than \( (V - 4N)/V \), respectively, as \( (1 - a)V/4 \) is greater than, equal to, or less than \( N \). QED.

**Appendix F: The Effect of Increasing Competition on Profit**

Denoting \( p_1(V, N, a) \) as \( p_2(a) \), the derivative of Equation 7 with respect to \( a \) is
\[
\frac{\partial p_1}{\partial a} = p_2(a) \left[ \frac{N}{(p_2(a) + ap_2(a) + N)} V - 1 \right] + \frac{-p_2(a)^2V}{(p_2(a) + ap_2(a) + N)^2}.
\]

The second term is obviously \( p_2(a) \), and because \( \alpha p_2 \)

Then the first term is \( p_1 \) to \( N \), then \( \partial p_1/\partial a \) is

**Appendix G: Pr**

**Proof.** Let \( a \in (0,1) \) at the single point where
\[
\frac{\partial p_1}{\partial a}.
\]

Because the first derivative

Therefore, total lobbying

**Appendix H: Ti**

We prove that the

**Lemma H1.** The

**Proof.** We prove

Because \( N \) is positive, \( t \)

**Lemma H2.** If \( \Psi(t) \)

**Proof.** If \( \Psi(t) \),

We can rewrite \( \partial p_1/\partial a \)

This derivative is nonzero

The existence of because the Implicit Function

With these two is

**Theorem H1.** The
The second term is obviously negative. Because the first-order condition (Eqn. 4) holds for any $R_1$ and $R_2$, including $R_1 = R_2 = \rho_J(x)$, and because $\phi_J(x) > 0$, we can sign the term in braces as

$$\left(\frac{V}{\rho_J(x) + \phi_J(x) + N}\right)^2 V - 1 = 0.$$ 

Then the first term is positive, zero, or negative as $\phi_J(x)$ is negative, zero, or positive. Thus, if $V$ is sufficiently large relative to $N$, then $\partial V^2/\partial \alpha$ is unambiguously negative, but generally the sign will depend on the values of the parameter.

**Appendix G: Proof of Theorem 2**

Proof. Let $\alpha \in (0, 1)$ and, by Assumption 1 and nonnegative political costs, $N \in (0, V)$. Recall that $\rho_J$ is maximized at the single point where $N = (1 - \alpha)\sqrt{V}$. Therefore,

$$\rho_J = 2\rho_J = \frac{\sqrt{4(1 + \alpha)N\sqrt{V} + N^2} + 2N(1 + \alpha)}{1 + \alpha} \leq \frac{\sqrt{4(1 + \alpha)(1 - \alpha)\sqrt{V} + N^2} + 2N(1 + \alpha)}{1 + \alpha} \leq \frac{\sqrt{4(1 + \alpha)(1 - \alpha)\sqrt{V} + N^2} + 2N(1 + \alpha)}{1 + \alpha} = \frac{\sqrt{\sqrt{V} + (1 + \alpha)^2}V}{1 + \alpha}.$$ 

Because the first derivative is strictly concave, the equality holds only at the point where $N = (1 - \alpha)\sqrt{V}/4$; elsewhere $\rho_J < V/2$. Therefore, total lobbying expenditures are less than one half of the value of benefits almost everywhere. QED.

**Appendix H: The Implicit Reaction Function**

We prove that the first-order condition is an implicit function $R_1 = R_1(R_1)$, except possibly at a point of measure zero using the Implicit Function Theorem. We first establish two lemmas where we define

$$\Psi(R_1, R_2) = \frac{\sigma(\sigma R_1^\alpha + N)R_1^{\alpha-1}}{(R_1^\alpha + \sigma R_1^\alpha + N)^2} V - 1.$$ 

**Lemma H1.** The derivatives $\partial \Psi/\partial R_1$ and $\partial \Psi/\partial R_2$ are continuous everywhere.

**Proof.** We prove the lemma for $\partial \Psi/\partial R_1$, then it will hold for $\partial \Psi/\partial R_2$. Note that

$$\frac{\partial \Psi}{\partial R_1} = \frac{\sigma(\sigma R_1^\alpha + N)R_1^{\alpha-1}}{(R_1^\alpha + \sigma R_1^\alpha + N)^2} V - 1.$$ 

Because $N$ is positive, these terms obviously are continuous everywhere. QED.

**Lemma H2.** If $\Psi(R_1, R_2) = 0$, $\partial \Psi/\partial R_1 \neq 0$ except at a point of measure zero.

**Proof.** If $\Psi(R_1, R_2) = 0$,

$$\frac{\sigma(\sigma R_1^\alpha + N)R_1^{\alpha-1}}{(R_1^\alpha + \sigma R_1^\alpha + N)^2} V - 1.$$ 

We can rewrite $\partial \Psi/\partial R_1$ of Lemma H1 as

$$\frac{\partial \Psi}{\partial R_1} = (\sigma - 1)R_1^{\alpha-1} - \frac{2\sigma R_1^{\alpha-1}}{R_1^\alpha + \sigma R_1^\alpha + N} = (\sigma - 1)(\sigma R_1^\alpha + N)(R_1^\alpha + \sigma R_1^\alpha + N)^{-2} - \frac{\sigma R_1^{\alpha-1}}{R_1^\alpha + \sigma R_1^\alpha + N}.$$ 

This derivative is nonzero except at $(\sigma - 1)(\sigma R_1^\alpha + N) = (1 + \sigma)R_1^\alpha$, a point of measure zero on $R_1$. QED.

The existence of this point where $\partial \Psi/\partial R_1 = 0$ does not necessarily mean that the function does not exist at this point, because the Implicit Function Theorem establishes sufficient, not necessary, conditions. It is possible for this condition to fail at a point where a function exists (Chiang 1984).

With these two lemmas, we can prove

**Theorem H1.** The first-order condition 10 implicitly defines a function $R_1 = \Psi(R_2)$, except possibly at a point of measure zero.
PROOF. In our case, the Implicit Function Theorem states that (1) if \( \partial P / \partial R \) and \( \partial P / \partial R \) are continuous; and (2) if, at the point where \( V(R, R) = 0 \), \( \partial P / \partial R \) is nonzero, then \( V(R, R) \) defines an implicit function in neighborhoods around points where these conditions hold. \( \text{Q.E.D.} \)

References


