Default Costs, Financial and Product Market Decisions and Default Risk
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Cesaltina Pires received his Licenciatura (1985) from the Faculdade de Economia, Universidade Nova de Lisboa, Portugal, and his M.A. (1989) from the INSEAD, Fontainebleau, France and PhD. (1994) from Massachusetts Institute of Technology, MA, U.S.A with the Thesis Title, “Three Essays in Economic Theory.” She is currently Full Professor at the Management Department of the Universidade de Évora. The Curricular Units that she teaching currently are: Operations Management, Decision and Negotiation Analysis, Analytical Models and Markets and Prices. His research interests are Industrial Organization, Decision Theory, Game Theory. Cesaltina Pires is a a Scientific Coordinator of the Research Unit of CEFAGE-UE and Coordinator of CEFAGE’s Industrial Economics and Business Strategy research group.

[Abstract] Financial and output market decisions are crucial to the success or failure of an organization and are influenced by the dynamic economic and competitive environment in which firms operate. In this paper we analyze the equilibrium default risk in a two-stage duopoly model with an uncertain environment, where firms decide their financial structure in the first stage of the game and decide their quantities in the second stage of the game. Using numerical analysis, we analyze the impact of changing the level of demand uncertainty, the degree of product substitutability, the asymmetry in the two firms’ marginal costs and the direct and indirect default costs’ parameters on the equilibrium default risk.