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In order to analyze the privatization policies undertaken by the national and regional governments, we consider a horizontal differentiation model with price competition in which a country consists of two regions of different sizes. We show that public-sector intervention by either the national or regional government is essential for achieving the social optimum, because a private duopoly does not achieve the social optimum. However, not all public interventions in firms are better than the private duopoly. On the other hand, the preferences of consumers and firms about privatization policy are completely opposite. Finally, the privatization policies of regional governments are completely opposite from one region to the other, and do not coincide with that of the national government. Overall, this paper shows that the relative size of regions is an important feature in the design of the privatization policies implemented by national and regional governments.

Keywords: Horizontal Differentiation, National and Regional Governments, Mixed Duopoly, Region Size, Partial Privatization