

**Abstract**

It is well-known in the IO literature that incumbent firms may want to deter entry by behaving as if they are efficient. In this paper we show that incumbents may sometimes prefer to encourage entry by mimicking the behaviour of a less efficient firm for the following reason.

If the incumbent cannot deter potential efficient entrants, he may want to elicit entry by an inefficient firm who would not enter if he knows that the incumbent is efficient. The presence of the additional firm in the market prevents further entry. The incumbent then faces a less efficient competitor in the long run.