Dear Editor,

Please find attached my manuscript entitled “From Horizontal to Vertical Differentiation:

Global Markov Equilibria and Regime Transitions,” which wish to submit for publication in *Dynamic Games and Applications*.

The paper studies a dynamic model of quality competition in which two firms continuously invest in product quality while competing in prices□in a dynamic framework and provides a characterization of the relevant Markov perfect equilibria. Particular attention is devoted to the strategic mechanisms underlying equilibrium behavior and to the conditions governing equilibrium existence, structure, and comparative statics.

The main contribution of the paper is to show that local equilibrium trajectories must satisfy smooth-pasting and transversality conditions in order to define globally admissible equilibria. The equilibrium selection problem is therefore one of global continuation rather than local stability. The intermediate regime, usually viewed as a transient configuration in static models of product differentiation, may instead become the long-run equilibrium outcome.

The analysis combines economic intuition with a rigorous dynamic-game formulation and, we believe, contributes to the literature on Markov perfect equilibrium and dynamic strategic interaction.

Given its emphasis on dynamic games, equilibrium characterization, and economic applications, we believe that the manuscript is well suited to the scope of *Dynamic Games and Applications*.

The manuscript is original, has not been published previously, and is not currently under consideration by another journal. All authors have approved its submission.

Thank you for considering our manuscript. We hope that you will find it suitable for publication in *Dynamic Games and Applications*.

Sincerely,

Didier Laussel