Policy makers around the world are trying to accelerate the transition from a linear to a circular economy. Yet, it is not clear how viable business models work in a circular economy. This paper proposes a tractable analytical framework that features the key ingredients of a circular business model: (i) the firm designs the product and may recover it at the end of its life, (ii) consumers may care for recycling and dispose of the product at the end of its life, and (iii) the market outcome is endogenously determined. We establish the conditions under which a profit-maximizing firm offers a (partially or fully) recyclable product and study the drivers of product design, demand, profit, and the waste footprint. In addition, we consider various extensions and discuss how circularity may be promoted.

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