Economics of vertical restraints

May 19-28 2014

Lecturers:
Professor Greg Shaffer
Simon Business School
University of Rochester
shaffer@simon.rochester.edu

and

Professor Thibaud Vergé
CREST/ENSAE (Paris)
Thibaud.verge@ensae.fr

Class Times: 10:15-12:00, 13:15-15:00 (M, T, W, both weeks)
Workshop: Friday May 23, 0900 – 16:00
Class Room: Auditorium, JUS II, Jekteviksbakken 31 (ground floor).

Much of the literature on industrial organization implicitly assumes that firms sell directly to final consumers. However, the reality is that many firms sell through intermediaries (e.g., wholesalers and retailers) who then resell to final consumers. This course is about contracting issues that arise in such settings. It is designed to bring you to the forefront of the research in this exciting area. We will consider how competition is impacted by the feasibility of different contracts and the information that each side has. We will also discuss policy implications.

I. Course Requirements: take-home exam

II. Background and reading materials

Papers are listed under each of the lectures. The plan is to cover as many of the classics as possible in class and then to touch on how the literature has progressed in each instance. We have denoted required readings with an asterisk (other readings are supplemental).

We will assume a basic knowledge of static oligopoly theory (i.e., Cournot and Bertrand models). We will also assume a basic knowledge of game theory (complete information, simultaneous and sequential move games). You might wish to consult an I.O. text, such as the one by Tirole, *The Theory of Industrial Organization*, MIT Press, 1988, chapter 11, or the one by Vives, *Oligopoly Pricing: Old Ideas and New Tools*, MIT Press, 1999. chapter 2.
III. Syllabus

Lecture 1 -- May 19: Vertical control (successive monopoly, double marginalization)


Lecture 2 -- May 19: Vertical control (downstream competition, free riding)


Lecture 3 -- May 20: Vertical control (uncertainty, asymmetric information, inventories)


Lecture 4 -- May 20: Vertical control (opportunism and unobservable contracts)


Lecture 5 -- May 21: Vertical control (strategic delegation, rivalrous principal-agents)


Lecture 6 -- May 21: Vertical control (multi-product firms, common agency)


Lecture 7 -- May 26: Vertical control (Downstream buyer power)


Lecture 8 -- May 26: Vertical control (Common agency)


Lecture 9 -- May 27: Vertical control (Inter- and Intra-brand completion: interlocking relationships)


**Lecture 10 -- May 27: Vertical control (Endogeneous market structure)**


**Lecture 11 -- May 28: Vertical integration**


**Lecture 12 -- May 28: Vertical control and tacit collusion**


Course responsible:
Tommy Staahl Gabrielsen
email: tommy.gabrielsen@econ.uib.no
phone: +47 55 58 92 21