

Exclusionary Vertical Contracts with Multiple Entrants

Hiroshi Kitamura*
Graduate School of Economics, Osaka University

January 22, 2008

Abstract

This paper analyzes an exclusive dealing between an upstream incumbent and competing firms when there are multiple entrants. Unlike a single entrant model, an entrant competes not only with the incumbent but also with the other entrants. The competition among entrants generates an external effect that it raises downstream firms' profits not signing the exclusive contract. Due to this external effect, the market environment determining entry and exclusion is dramatically changed compared to a single entrant model. This yields a new implication for antitrust agencies: the competition among entrants might be crucial determining the likelihood of exclusion.

JEL Classifications Code: L12, L41, L42.

Keywords: Vertical Relation; Exclusive Dealing; Multiple Entrant; Antitrust Policy.

References

- Abito, J.M., and Wright, J., 2008. Exclusive Dealing with Imperfect Downstream Competition. *International Journal of Industrial Organization* 26(1), 227-246.
- Fumagalli, C., and Motta, M., 2006. Exclusive Dealing and Entry, when Buyers Compete. *American Economic Review* 96(3), 785-795.
- Simpson, J., and Wickelgren, A.L., 2007. Naked Exclusion, Efficient Breach, and Downstream Competition. *American Economic Review* 97(4), 1305-1320.

*Address: Graduate School of Economics, Osaka University, 1-7 Machikaneyama, Toyonaka, Osaka, 560-0043, Japan. Email address: gge003kh@mail2.econ.osaka-u.ac.jp