

Relationship-Specific Investment as A Barrier to Entry*

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Abstract

This paper explores the anticompetitiveness of relationship-specific investment in the dynamic framework. Although the investment decreases operation costs and increases the current joint profits between vertical relation, its specificity reduces the ex-post flexibility to change a trading partner in the future. We show that the relationship-specific investment may play a role to deter efficient entry but that its anticompetitiveness depends on the degree of its efficiency and the degree of its specificity.

JEL Classifications Code: L12, L41, L42.

Keywords: Vertical relation; Entry deterrence; Relationship-specific investment; Antitrust policy.

*All errors are ours.

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