Exclusive Contracts with Complementary Inputs*

Hiroshi Kitamura† Noriaki Matsushima‡ Misato Sato§

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Abstract

This study constructs a model of anticompetitive exclusive contracts in the presence of complementary inputs. A downstream firm transforms multiple complementary inputs into final products. When complementary input suppliers have market power, the upstream competition in a certain input market benefits not only a downstream firm by lowering the input price but also complementary input suppliers by raising complementary input prices. Thus, the downstream firm cannot earn higher profits even when socially efficient entry is allowed. Hence, the inefficient incumbent supplier can deter socially efficient entry by using exclusive contracts even in the absence of scale economies and downstream competition.

JEL classifications code: L12, L41, L42.
Keywords: Antitrust policy; Complementary inputs; Exclusive dealing; Multiple inputs.

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†Faculty of Economics, Kyoto Sangyo University, Motoyama, Kamigamo, Kita-Ku, Kyoto, Kyoto 603-8555, Japan. Email: hiroshikitamura@cc.kyoto-su.ac.jp

‡Institute of Social and Economic Research, Osaka University 6-1 Mihogaoka, Ibaraki, Osaka 567-0047, Japan. Email: nmatsush@ieser.osaka-u.ac.jp

§Department of Economics, The George Washington University, 2115 G street, NW Monroe Hall 340 Washington DC 20052, USA. Email: smisato@gwmail.gwu.edu