

Multi product competition in vertically related industries*

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Abstract

The purpose of the paper is to show how a horizontal partnership between multi product firms affects their vertical relationships. We develop a multi product Cournot model with a vertical structure where downstream firms need input produced by upstream supplier(s). We find the following results: when upstream market consists of exclusive suppliers, an efficient firm may have incentive for technology transfer to its rival firm with less efficient technology without any payment; moreover, such technology transfer enhances both consumer surplus and social welfare. It is also found that an inefficient firm may earn more than an efficient firm under upstream market with exclusive suppliers or with discriminatory monopolist.

Keywords: Multi product firm, Technology transfer, Vertical relationship

JEL Classification Numbers: L14, L24, L41

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