The incentive for vertical integration under subsidization

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April 20, 2015

Abstract

We examine the incentive for vertical integration in a successive Cournot oligopoly under an output subsidy policy. Furthermore, we deal with the following two timings of the game: (1) First, the government chooses the output subsidy level for a final good. Second, each pair of upstream and downstream firms simultaneously decide whether or not to integrate. Third, each intermediate good producer chooses its quantity, and finally, each final good producer chooses its quantity. (2) First and second stages occur in reverse order of (1), whereas third and fourth stages occurs in the same order as (1). In the case of (1), all pairs decide to integrate. In the case of (2), no pair decide to integrate when the total number of firms is small, whereas all pairs decide to integrate when the total number of firms is large.

JEL Classification: L13, L32

Keywords: subsidy; successive oligopoly; vertical integration

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