

# **The Incidence of Corporate Social Responsibility in Vertically Related Markets**

Fang-yueh Chen

Department of Economics, National Chung-Cheng University, Chia-yi, Taiwan

Leonard F.S. Wang\*

Department of Applied Economics, National University of Kaohsiung, Kaohsiung,  
Taiwan

**Version: 2015/1/21**

## **Abstract**

We build a consecutive monopoly model in which CSR incidence and product qualities are endogenously decided. We explicitly derive a sharing rule of CSR for upstream and downstream firms. We prove that CSR increases each firm's profit by releasing the double marginalization problem in the vertical structure. We show a win-win welfare result where consumer surplus and industrial profits increase by CSR. However, the downstream firm may downgrade its final good quality for its output expansion. The upstream firm increases both its output and quality of input in the equilibrium.

**JEL Classification:** F12; F13

**Keywords:** Corporate Social Responsibility; Product Differentiation;  
Vertically-related Markets

---

\*Correspondence: Leonard F. S. Wang, Department of Applied Economics, National University of Kaohsiung, No. 700, Kaohsiung University Road, Nan-Tzu District 811, Kaohsiung, Taiwan, R.O.C. Tel:886-7-5919322, Fax:886-7-5919320, E-mail address: [lfswang@nuk.edu.tw](mailto:lfswang@nuk.edu.tw). Fang-yueh Chen would like thank for helpful comments on the earlier version from participants of Seminar on Corporate Social Responsibility and Annual Meeting of Asia-Pacific Economic and Management Association, 2014.