The Incidence of Corporate Social Responsibility in Vertically Related Markets

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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.

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