

# Bargaining power and firm profits in asymmetric duopoly: An inverted-U relationship (Tentative)\*

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## Abstract

The paper investigates the effect of bargaining power on downstream firms' profits. Consider a two-tier industry consisting of two upstream and two downstream firms, and the downstream firms have different technology in terms of efficiency. Each pair bargains over linear wholesale price, and then the downstream firms engage in Cournot competition. We show that the inefficient downstream firm may benefit from an increase in the bargaining power of upstream firms. Furthermore, we obtain the similar results when upstream firm is monopolist or downstream firms compete in price.

**Keywords:** Nash bargaining, Bargaining power, Profit, Firm asymmetry, Vertical relationship

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