

Exclusive Contracts with Options*

Koki Arai, *Japan Fair Trade Commission*[†]
Hiroshi Kitamura, *Sapporo Gakuin University*[‡]
Misato Sato, *George Washington University*[§]

January 17, 2012

Abstract

This paper constructs a model of anticompetitive exclusive dealing with options. In contrast to previous studies, the incumbent has options to establish a direct retailer with some fixed payments and to offer exclusive contracts to a downstream buyer twice. We show that the existence of these two options helps the incumbent deter efficient entry and yield almost monopoly profits even in the absence of scale economies and downstream competition.

JEL classifications code: L12, L41, L42.

Keywords: Vertical relation; Exclusive dealing; Twice offers; Direct retailers.

*The second author gratefully acknowledges financial support from JSPS Grant-in-Aid for Research Activity start-up No. 22830075 and for Scientific Research (A) No. 22243022 organized by Masaki Nakabayashi. The views expressed in this paper are those of the authors and do not necessarily represent the views of the JFTC or any organizations. The usual disclaimer applies. This paper is available at SSRN: <http://ssrn.com/abstract=1947794>

[†]Competition Policy Research Center, Japan Fair Trade Commission, 1-1-1, Kasumigaseki, Chiyoda-ku, Tokyo 100-8987, Japan. Email: koki_arai@jftc.go.jp

[‡]Faculty of Economics, Sapporo Gakuin University, 11 Bunkyo-dai, Ebetsu, Hokkaido, 069-8555, Japan. Email: kitamura@sgu.ac.jp

[§]Graduate School of Economics, George Washington University, 2115 G street, NW Monroe Hall 340 Washington DC 20052, USA. Email: smisato@gwmail.gwu.edu