Exclusive Contracts in Durable Goods Markets

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Abstract

This study constructs a model of exclusive contracts in durable goods markets. Like a durable goods monopolist, an incumbent supplier and a downstream firm suffer from the profit loss due to the future price reduction. When upstream entry in the future is predicted, the future price reduction becomes more serious, which reduces the current joint profit of the contracting party. Such a negative externality allows the inefficient incumbent to deter socially efficient entry through exclusive contracts. The result here provides an important implication for competition policy; the Chicago School argument, based on perishable goods markets, cannot be necessarily applied to durable goods markets.

JEL classification codes: L12, L41, L42.
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