Chapter 9 Structural Empirical Analysis of Vertical Contracting

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Outline - Theory

Introduction

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Basics

- Setting
  - A upstream seller U and a downstream buyer D agree on a contract $\mathcal{C}$ from some feasible set.
  - The contract $\mathcal{C} = \{y, t\}$, y includes other provisions and t is a lump-sum transfer.
  - Firms' payoffs: $\Pi_U(\mathcal{C}) \equiv \pi_U(y) + t$; $\Pi_D(\mathcal{C}) \equiv \pi_D(y) - t$
- Pareto efficient contract
  - $y^* \in argmax_{(y,t) \in \mathcal{Y} \times \mathcal{R}} \pi_U(y) + \pi_D(y)$
  - Bilateral contracting principle: complete information and lump-sum transfers.

Basics - Examples

- A successive monopoly setting
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The offer game

The bidding game

Nash-in-Nash bargaining

Conclusion