Chapter 9 Structural Empirical Analysis of Vertical Contracting

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Outline - Theory

Introduction

Basics

Non-cooperative bargaining models
- The offer game
- The bidding game

Nash-in-Nash bargaining

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 $\mathcal{C} = \{y, t\}$, t is a lump-sum transfer and y includes other provisions.
    - Firms' payoffs: $\Pi_U(\mathcal{C}) \equiv \pi_U(y) + t$; $\Pi_D(\mathcal{C}) \equiv \pi_D(y) - t$
- Pareto efficient contract
    - $y* \in max_{(y,t)\in\mathcal{Y}\times\mathcal{R}}$

The offer game

The bidding game

Nash-in-Nash bargaining

Conclusion