



ECO 650: Contracts - Exercices

1 RPM to eliminate free-riding

Assumptions P offers a good produced at a unit cost c to two competing retailers $i = \{1, 2\}$ who compete à la Bertrand. Demand for the good is linear $D(p, s) = v + s - p$. Total effort service is the sum of the retailer's effort $s_1 + s_2 = s$ and the cost of effort is $c(s_i) = s_i^2$ for each firm i .

Questions

1. What are the choices (p^M, s_i^M) of a fully vertically integrated structure?
2. P and the two retailers are separated. What happens if P offers a simple uniform unit wholesale price contract w ?
3. P offers a contract (w, F, p) i.e. a contract with two-part tariff and resale price maintenance.