

Topic-Defence Seminar

“Free-Riding, Cartel Stability, and Vertical Integration”

(in English)

Presenter: Ms. CAO Yiran Carol (MPhil Student)

Date: 17 April 2020 (Friday)

Time: 12:15 – 12:45

Venue: ZOOM Meeting (Registration link:
<https://lingnan.zoom.us/meeting/register/uJ0pc-yupz8jBejh6d0JPDLXzXQzIglKGw>)

Chief Supervisor: Prof. LIN Ping (Professor)

Co-supervisor: Prof. LIU Sib0 (Assistant Professor)

Abstract:

The major difficulty for cartel formation is that it may be more profitable to be outside a merger/collusion than to be a participant, as first pointed out by Stigler (1950). The free-riding problem has been widely discussed in the literature. However, no much attention is paid to the possibility that vertical integration may curb the free-riding problem. The present thesis aims to shed light on possible channels through which the vertical merger can restrain the free-riding behavior and, in turn, promote cooperation among cartel members. It shows that the coordinated effects of vertical merger control the free-riding problem mainly through two mechanisms. First, if the cartel emerges in the downstream market, the vertically integrated units can restrain the free-riding by driving up the price of the intermediate good facing by the outside downstream firms. Second, if there is collusion in the upstream market, the vertically integrated downstream firms can curb the free-riding by foreclosing from procuring the input good from fringe upstream firms. Hence, through the two mechanisms, vertical integration can effectively control the free-riding behavior and thereby favor cartel stability.

ALL ARE WELCOME

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