Lingnan University 嶺南大學

Department of Economics

Seminar

"Long-Term Contracts as Barriers to Entry with Differentiated Products"

(in English)

Professor Thomas Ross
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Biography:

Tom Ross is the UPS Foundation Professor of Regulation and Competition Policy in the Sauder School of Business at the University of British Columbia. He is also the Director of the Phelps Centre for the Study of Government and Business at the Sauder School. An economist, he earned his undergraduate degree at the University of Western Ontario, his doctorate at the University of Pennsylvania and worked at the University of Chicago and Carleton University before moving to U.B.C.. His research in the areas of competition policy, industrial organization, public-private partnerships and experimental economics has been published in a number of scholarly journals. Professor Ross has also served as a consultant to a number of public and private sector organizations.

Date: **1 November 2016 (Tuesday)**

Time: **2pm – 3:30pm**

Venue: **WYL314, Dorothy Y. L. Wong Building**

Abstract:

This paper contributes to the literature on contracts as barriers to entry by studying a differentiated products model with a new but simple exclusionary mechanism. This mechanism exploits the fact that an incumbent firm may have some period(s) of monopoly operation before a potential entrant arrives in the market. Under uniform pricing, even at a monopoly level, consumers will enjoy some surplus in the pre-entry period - surplus that the incumbent may be able to hold hostage in an effort to persuade consumers to sign exclusive long-term contracts that would prevent entry. It is shown that the incumbent achieves exclusion when it can credibly threaten consumers not to sell if they reject the contract offer. This contract can improve or harm total welfare, depending on the degree of differentiation. When longer post-entry horizons are considered, it will not always be in the incumbent's interest to lock up consumers forever, but it will always do so for some period of time. Adding uncertainty about the arrival of the entrant expands the scope for entry-blocking contracts. Even when it cannot (by law) make the contracts exclusive, the incumbent will still compel buyers to accept long-term contracts that will limit the share of market the entrant can achieve. Finally, when the incumbent is not able to credibly commit to refuse to supply consumers who do not sign contracts, entry may nevertheless be blocked by long-term contracts, though under a more limited set of parametric conditions.

All Are Welcome

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