Discussion
Bilateral Monopoly Revisited: Price Formation, Efficiency and Countervailing Powers

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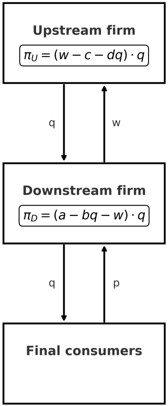
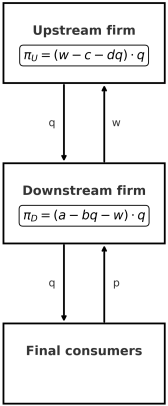
- The paper links a list of models of bilateral monopoly and bargaining, and characterizes their implications for output, prices, and the distribution of rents
- This is done by starting from the same setting under different assumptions on price formation, and comparing equilibria
  - the welfare implications of some modes of bargaining are non-trivial
  - e.g. partial Nash bargaining between monopolists can lead to socially better outcomes than bilaterally efficient full Nash bargaining

Model



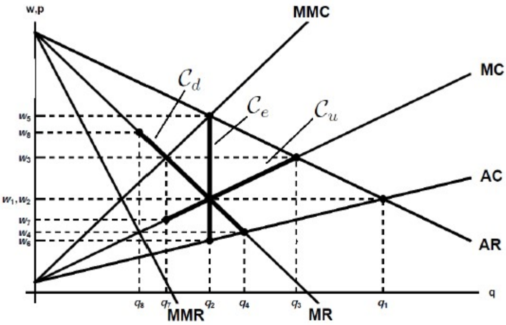
Upstream firm
$\pi_U = (w - c - dq) \cdot q$
q
w
Downstream firm
$\pi_D = (a - bq - w) \cdot q$
q
p
Final consumers

Model



- How do firms choose (w, q)? A broad range of solutions is considered
  - full price taking, pure monopoly, pure monopsony, take-it-or-leave-it offers, complete Nash bargaining, partial Nash bargaining

Bringing everything together



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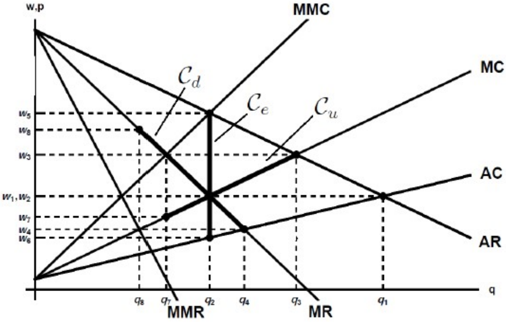

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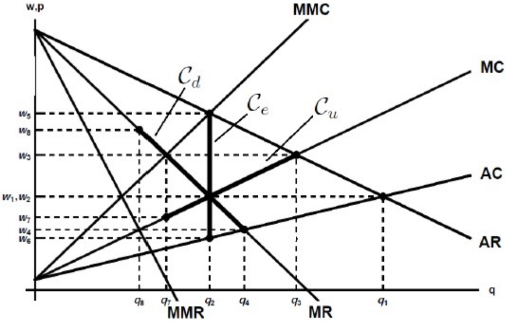

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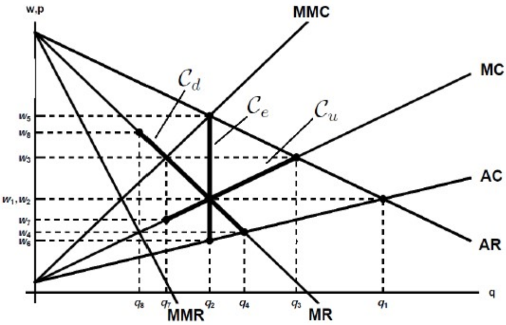

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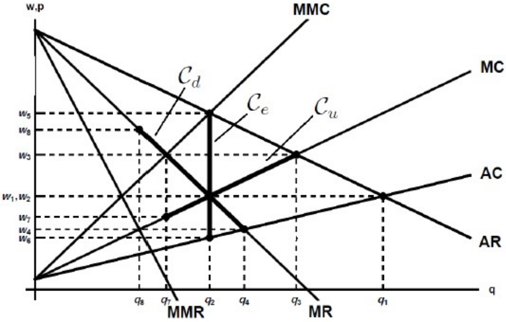

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  - this occurs when the q-setting firm has more bargaining power

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  - with bilateral monopoly, disagreement payoffs are zero: u and d always contract
  - the introduction of at least one additional upstream and one additional downstream firm alters all players' outside options - even if the firms do not compete horizontally

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    - where do the NiN equilibria lie on the graph? $\rightarrow$ additional welfare implications