Markups, Markdowns, and Bargaining in a Vertical Supply Chain

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Summary

Main Assumptions:

1. Right-to-manage is determined by the short-side rule.
2. Upstream firm sources its input from an upward-sloping supply curve (increasing marginal costs).

Results:

1. A sufficiently high bargaining power of the downstream firm leads to:
   1.1 A low wholesale price w;
   1.2 Upstream firm's right-to-manage;
   1.3 Double *Markdownization* and countervailing seller power.
2. A sufficiently high bargaining power of the upstream firm leads to:
   2.1 A high wholesale price w;
   2.2 Downstream firm's right-to-manage;
   2.3 Double *Markupization* and countervailing buyer power.

Summary

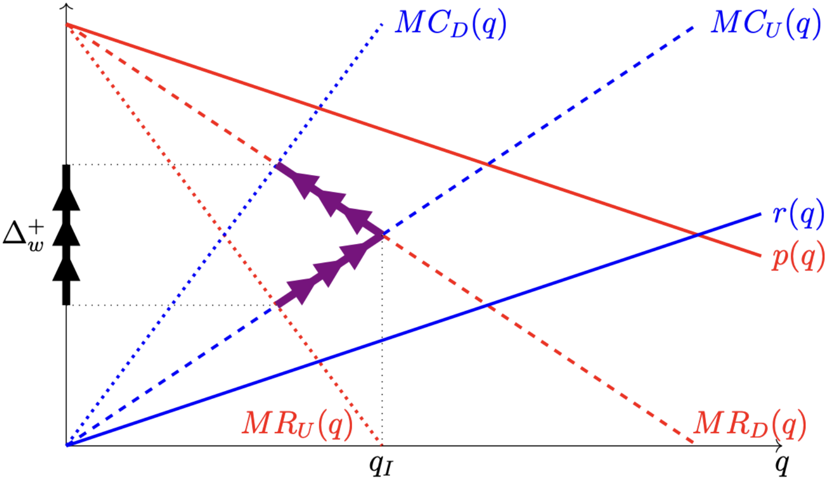

Figure 5: Effects of Increasing Seller Power (higher α).

Comments

- The conclusions are derived using the short-side rule for the right-to-manage.
  - $\rightarrow$ Does the short-side rule always apply in these markets?
  - $\rightarrow$ If not, are there specific markets where this might be more relevant than others?
- Non-Walrasian equilibrium (Benassy, 1990) and potential for Pareto improvements:
  - $\rightarrow$ If the firms bargain over both the wholesale price and the quantity, they can both be (weakly) better off (Toxvaerd, 2024).
- Application: Superstar firms and gatekeeper platforms.

Comments

From Toxvaerd (2024) (edited for comparison):

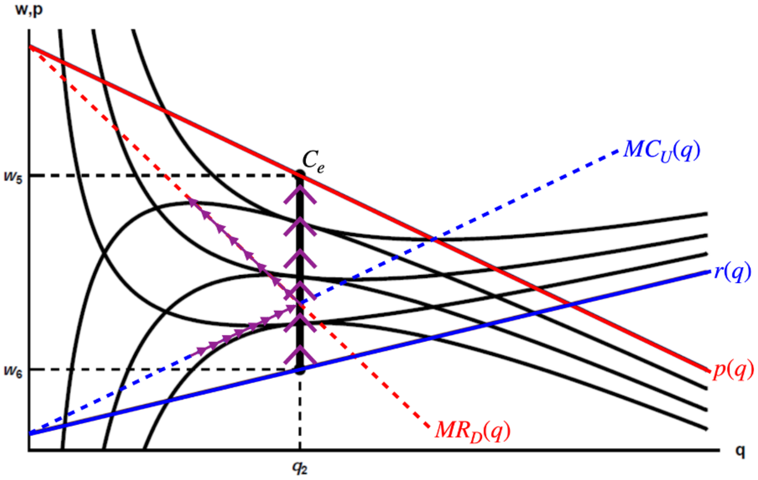

Figure 3: Contract curve for complete bargaining in (q, w)-space. Along the contract curve, the iso-profit curves are at points of tangency.