

Vertical Information Restraints: The Pro- and Anti-Competitive Impacts of Minimum Advertised Price Restrictions

John Asker and Heski Bar-Isaac

UCLA, NBER and Toronto Rotman, CEPR, CRESSE

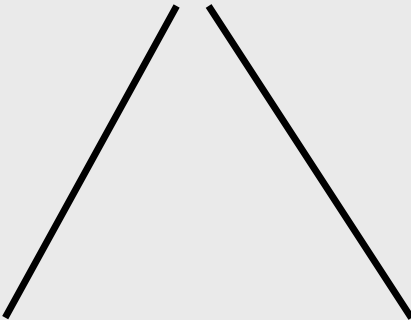
1. Introduction
2. Model
3. Price Discrimination
4. Service
5. Collusion
6. Conclusion

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9th Annual FTC Micro Conference

MAP?

- Minimum advertised price restrictions:



Research question

1. Introduction
2. Model
3. Price Discrimination

Punchline:

- Instructive to compare MAP and RPM:
 - If RPM is like price fixing, MAP is like market division
- MAP particularly helpful in settings where dealing with heterogeneity requires giving flexibility to retailers.
- Three settings show that MAP can:
 1. Enable industry level consumer price discrimination
 2. Encourage service provision from heterogeneous retailers
 3. Facilitate upstream collusion in the presence of private local retailer information
- This can be pro- or anti- competitive relative to no restrictions or RPM

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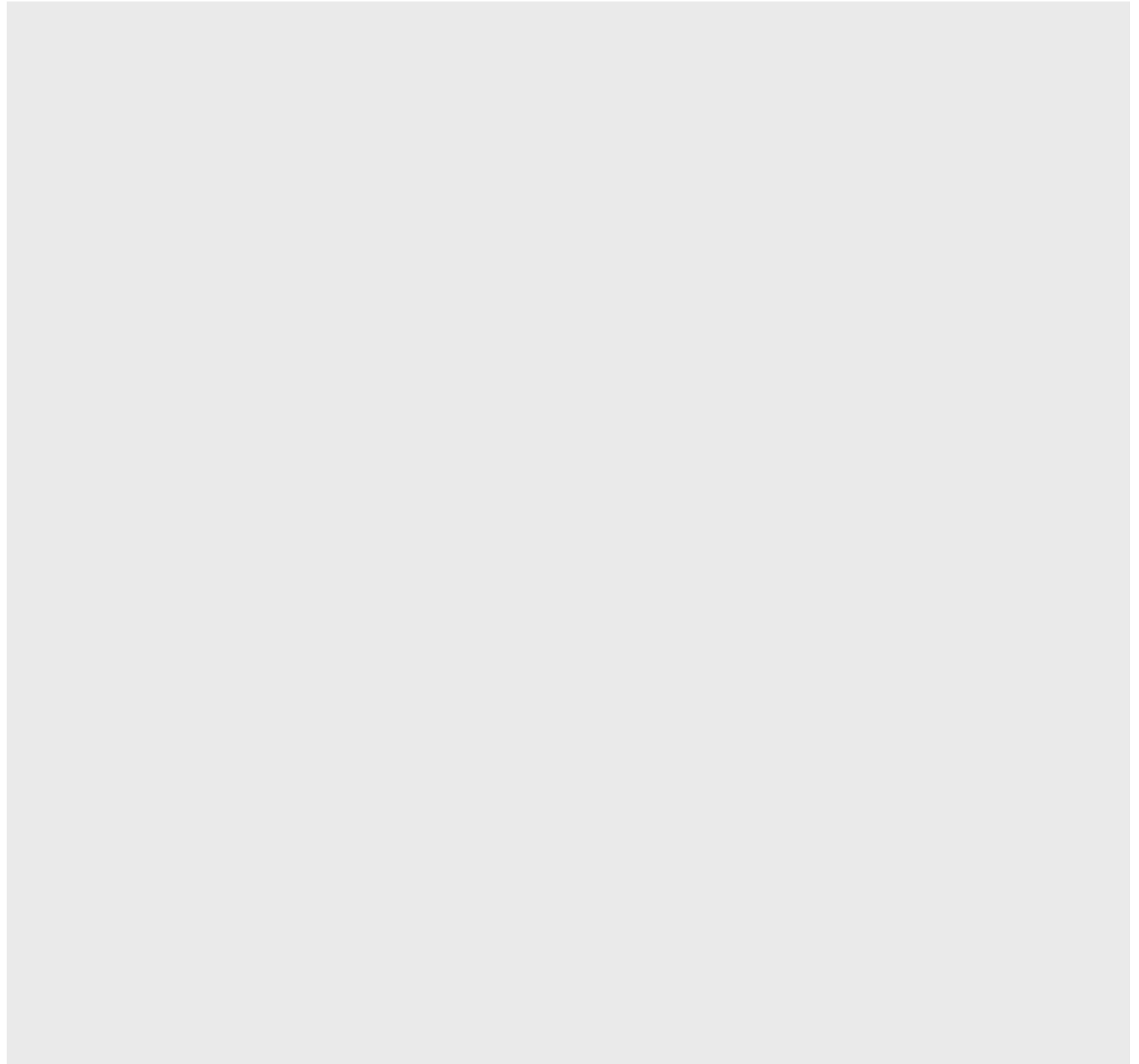
Examp

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Enerpa

MAP: a closer
look

Industry
coverage as at
April 13 2016 –

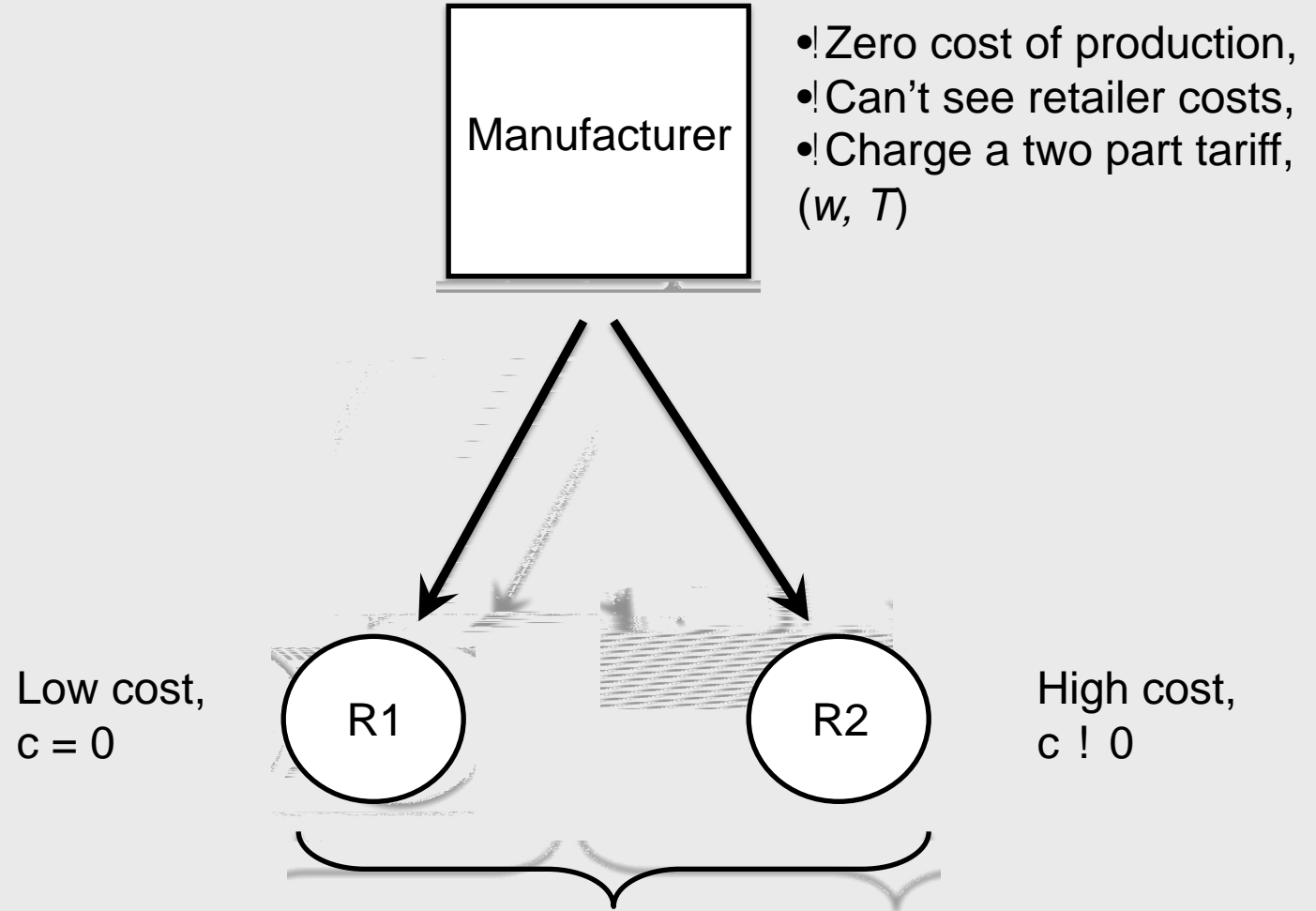


- ! Informational/search frictions exist and are meaningful
 - ! Need MAP to do something

- !

MAP and Price Discrimination

Set-up



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- Sell to Consumers
- Some see all prices
 - Others only advertised prices

MAP and Price Discrimination

Results

- ! One retailer charges high price and sells to half of the high value non-searchers
- ! Other retailer charges low price and sells to all searchers and half non-searchers
- ! Judicious use of w ensures neither retailer has incentive to deviate, and Manufacturer extracts rents through T

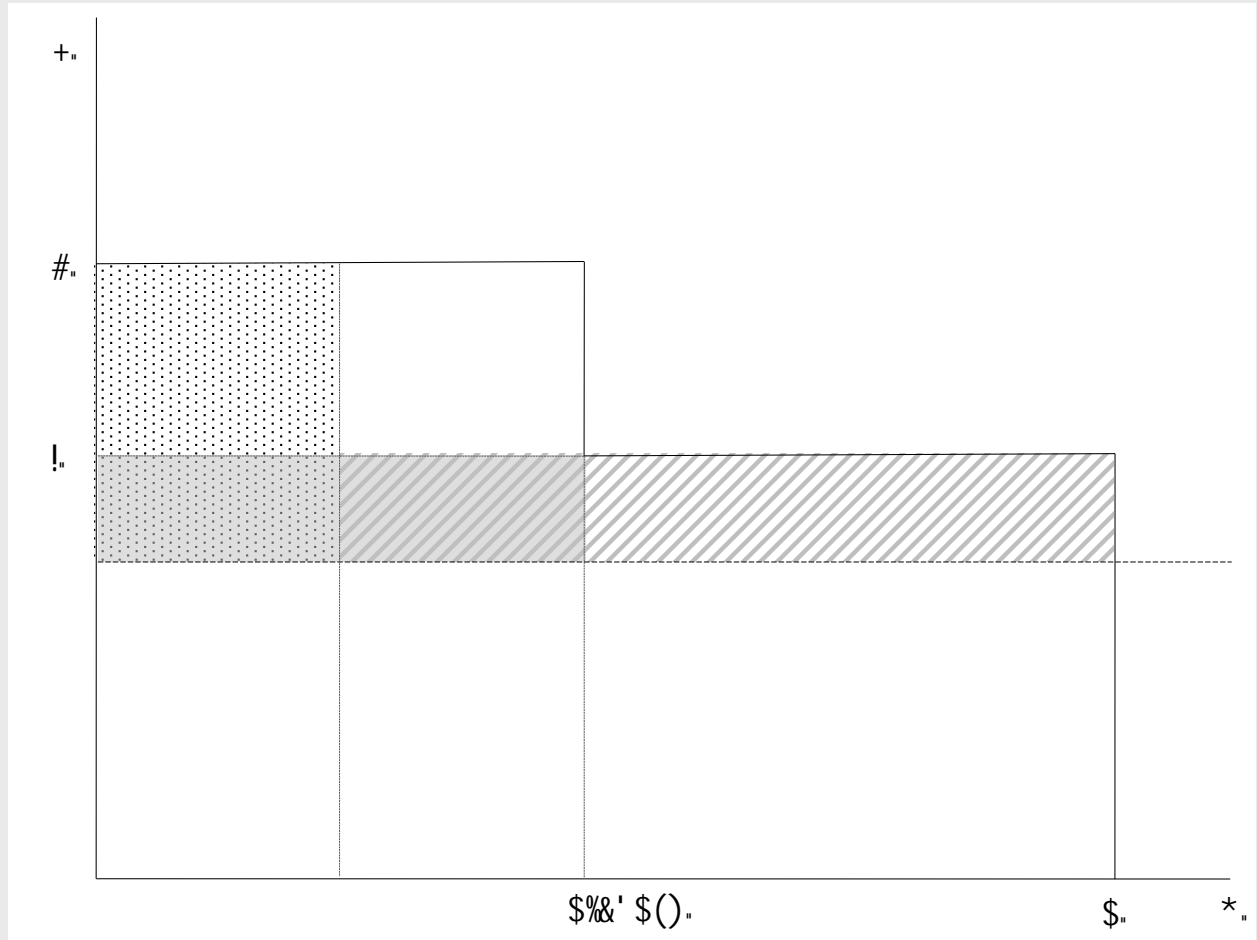
- ! This cannot be achieved through RPM

1.! Introduction

2.! Model

MAP and Price Discrimination:

MAP



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MAP and service

How does service work absent consumer heterogeneity (i.e. not leveraging price discrimination)?

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MAP and service

- ! Usual RPM story: soften price competition and give bigger margin that incentivizes service (and extract retailer profits through T)
- ! But with heterogeneous retailers giving high-cost retailer sufficient margin might entail too high price for low-cost retailer (above monopoly price)
- ! MAP provides flexibility to allow high-cost retailer sufficient margin and low-cost retailer to charge lower (monopoly) price

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MAP

MAP and
service

(Very Heuristic)

2 retailers, in
bertrand

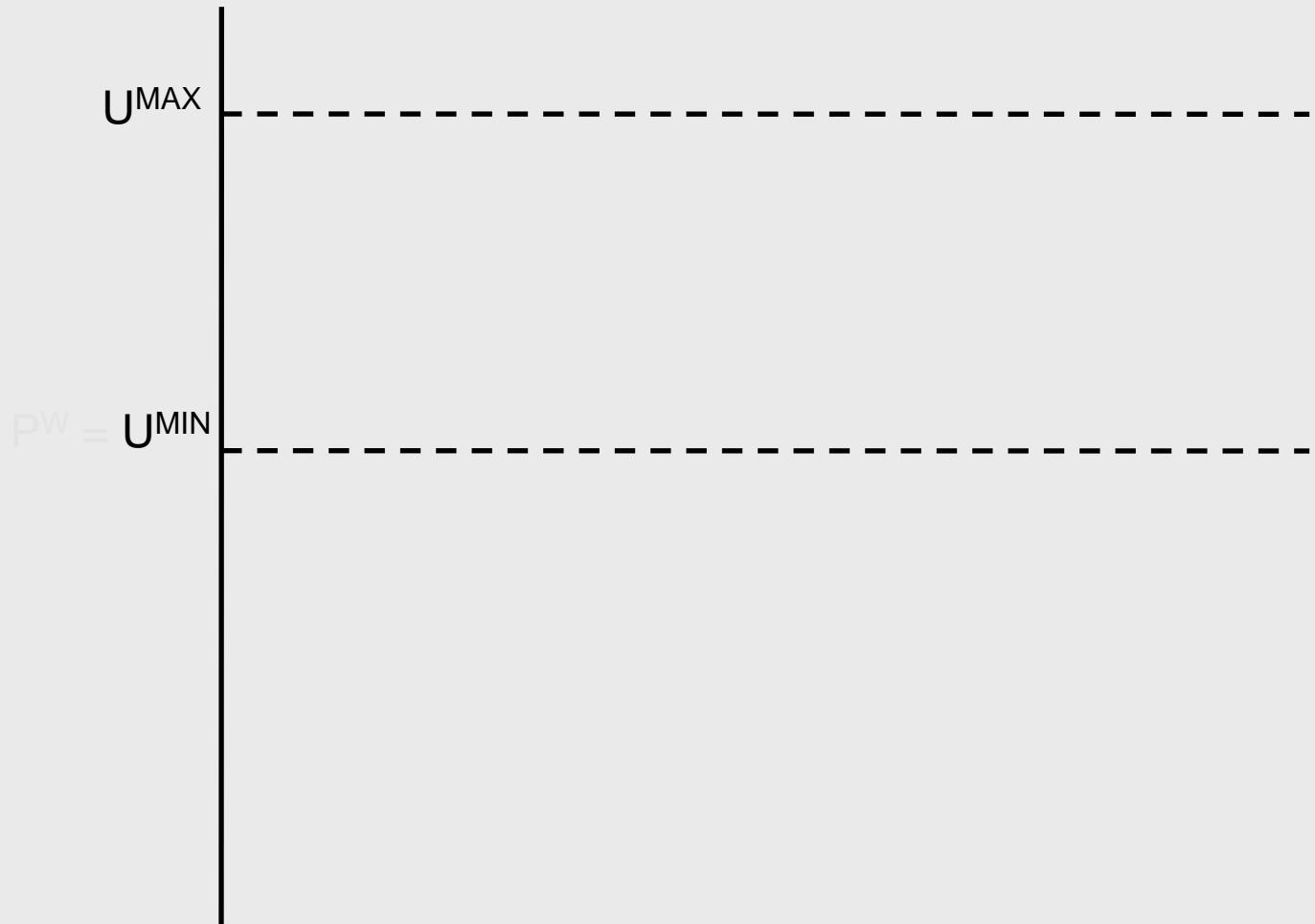
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- ! Adaption of Julien and Rey (2007) to a setting with informational frictions
- ! Manufacturers (M_1)

MAP and collusion

Model details

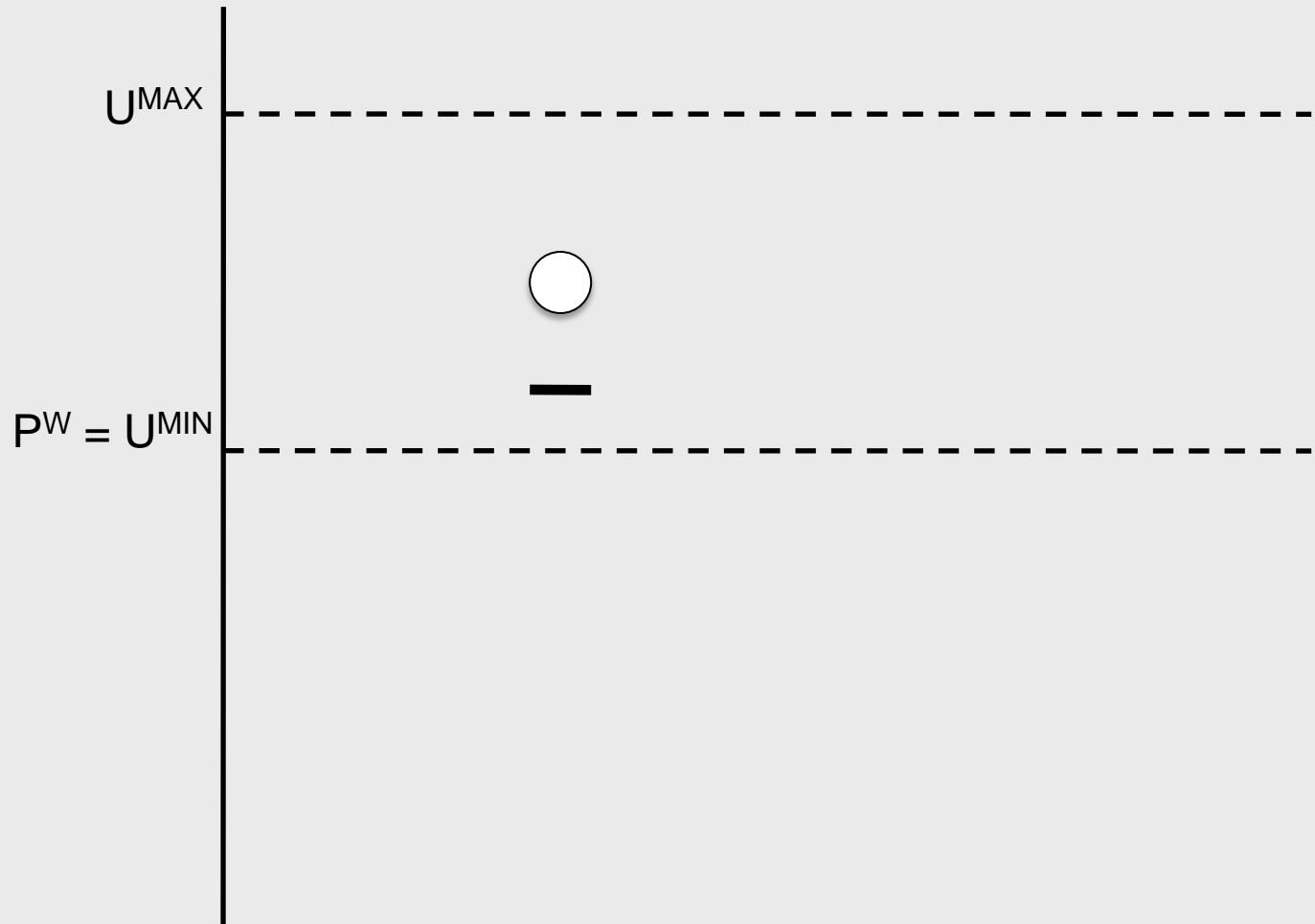


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MAP and collusion

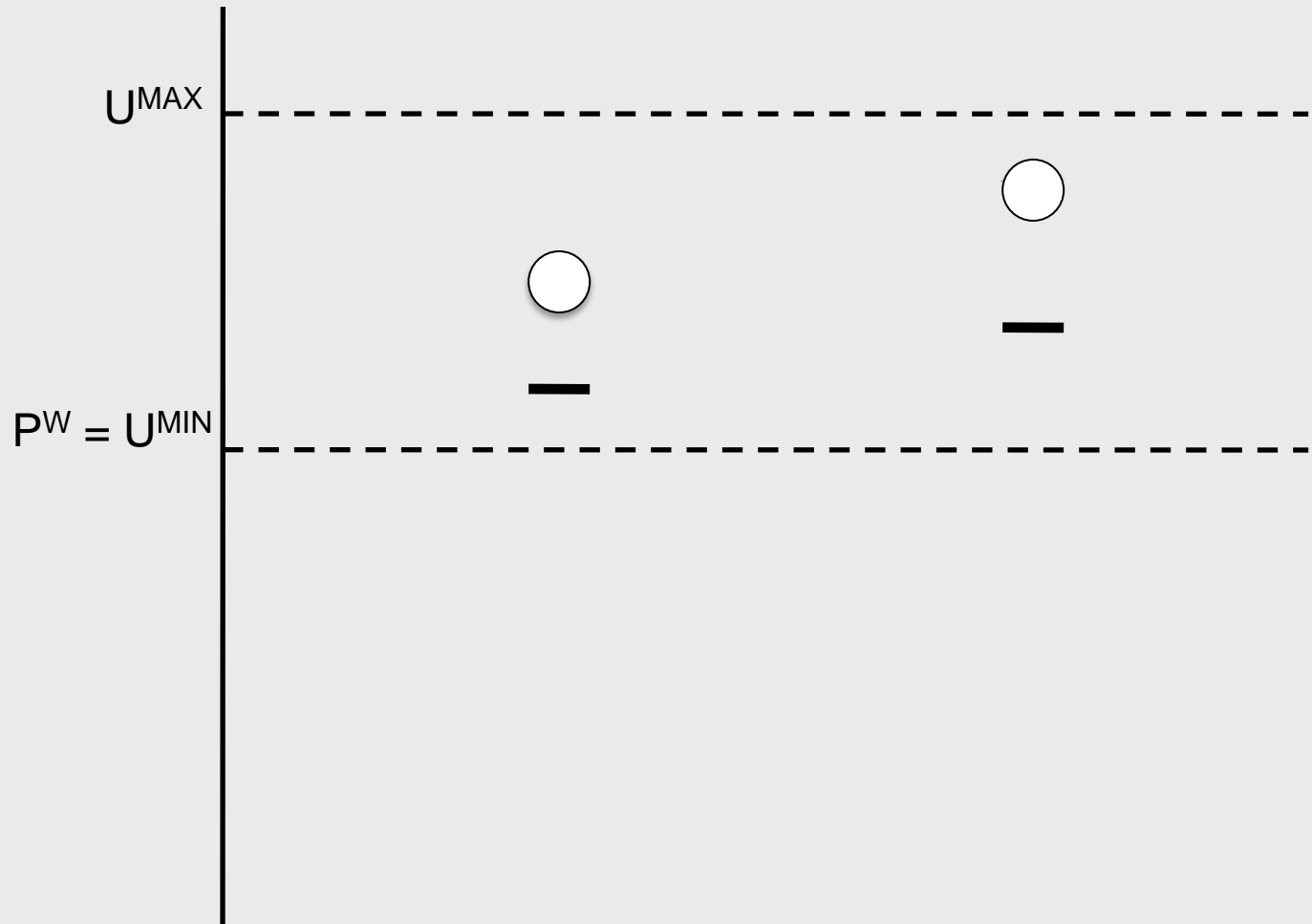
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MAP and collusion

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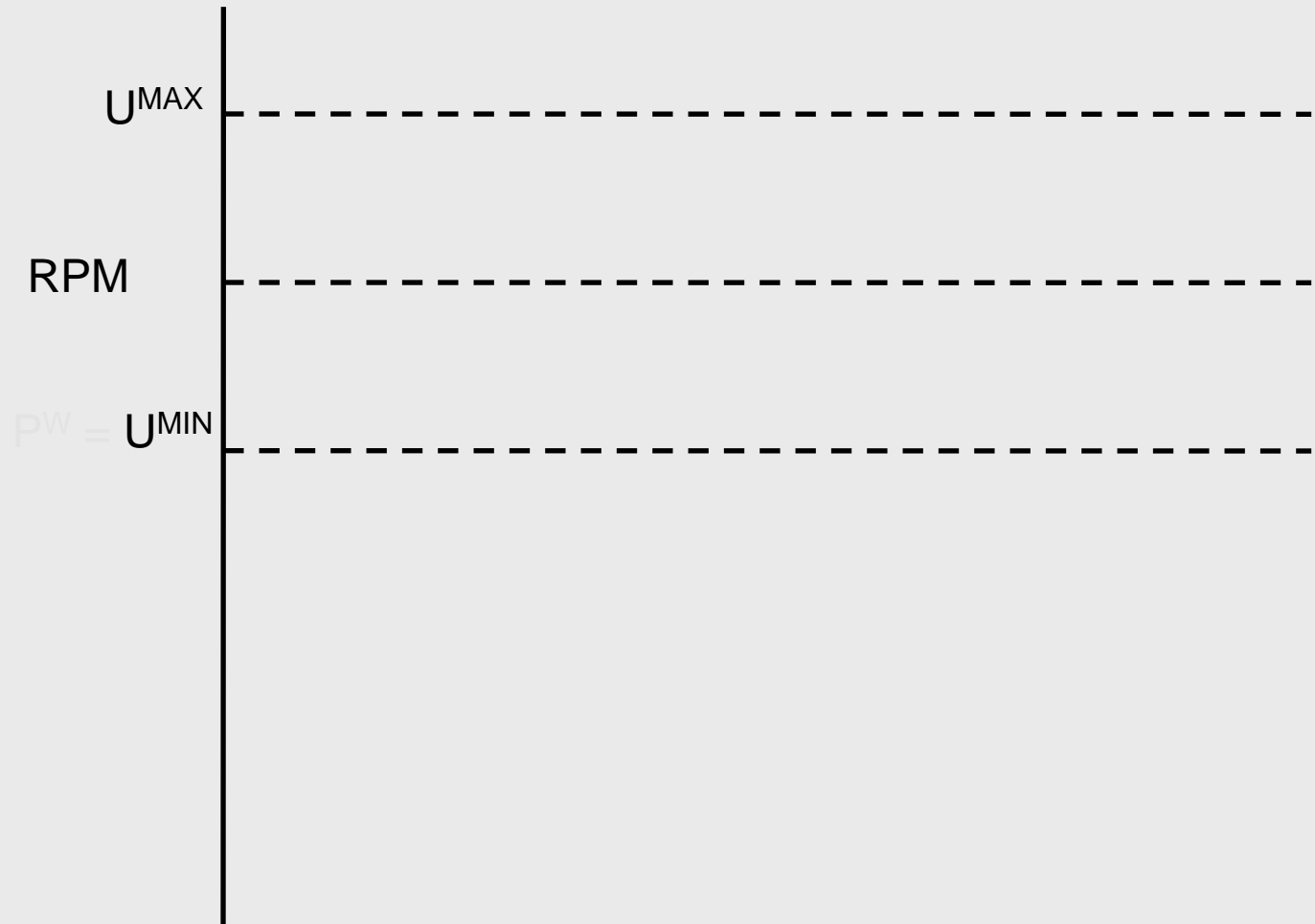


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MAP and
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Conclusion

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