

Forward Trading and Collusion in Supply Functions

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Abstract

This paper studies the effect of forward trading on the sustainability of collusion when spot market strategies take the form of supply functions. It shows that the existence of forward markets enlarges the range of discount factors for which collusion can be sustained. Also the opposite effect can prevail when a potentially deviating firm holds a significant amount of forward contracts. The results are indifferent to the type of contract fulfilment (financial settlement or physical delivery), and compare to the case of Cournot competition in the spot market. Demand uncertainty has an ambiguous effect on the sustainability of collusion.

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