

Contract contingency in vertically related markets*

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Abstract

We study pre-contractual arrangement (PCA) offers by an upstream monopolist supplier, such as the exclusivity and contingency of contracts to be signed between the supplier and two vertically differentiated downstream firms. PCAs are increasingly considered binding in Courts, creating strategic value for their offering party. Once the PCAs determined, the contractual terms are negotiated between the supplier and the downstream firm(s). The bargaining power distribution during these negotiations mainly drives the monopolist's choices. A powerful supplier selects exclusivity. A weaker supplier offers non-exclusive contracts, making them contingent or not to secure the most favorable outside options in its negotiations.

Keywords: Vertical relationships, exclusive vs. non-exclusive relationships, contract contingency, two-part tariff, product differentiation, pre-contractual arrangement.

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