

ECON 321, Assignment 17: M, Chapter 12 Interfirm Contracts

1. Read Section 12.1.
2. Read Section 12.2.
3. Do problem 12-1. Let's simplify it by letting $a=10$, $b=1$, $c=2$ for both firms. Plus, you can just assume (12.5) and (12.6) are correct instead of showing. Now do part (a) and part (b) for two values, $\theta=0.5$ and $\theta=0.75$. Don't do part (c).
4. Going back to the vertically integrated part (a) of the problem, what is the GUPPI for product 1 if these two firms merge?
5. Read Section 12.3 and think about whether the above problem could be used to show any of the vertical contract types discussed. (You don't have to write anything however.)