Discussion of “Welfare Effects of Buyer and Seller Power”

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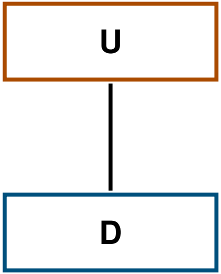
Double Margins Problem



- Retailer facing demand $P(Q)$
- Purchases at price d
- Manufacturer marginal cost c

1. Manufacturer sets d: double margins distortion
2. Retailer sets d : chooses $d = c$ no double margins
3. What if demand was a constant willingness to pay, but costs were increasing?

Distortions in Bilateral Monopoly

- The literature has focused mainly on efficient contracting: maximize bilateral surplus and use lump sum transfers between parties.
- This forecloses much of the discussions of regulation of vertical integration, or really of offsetting (or amplifying) market power on each side of the market causing a welfare loss.
- Linear contracts are the norm in practice, so we should be worried about welfare for bilateral monopoly with this contracting space.
- The topic of comparing the elasticities of factor cost and factor demand jointly is key, and the literature assumes one of these to be perfectly elastic.

Comparative Statics on the generalized Nash Bargaining Parameter β

- The comparative statics on the bargaining power parameter β is odd, since I usually think of these as technology — exogenous to any intervention.
- Really we stuff β all sorts of reasons why one party gets to set prices — essentially because the the disagreement payoffs are underspecified. So it ends up looking like a reduced-form in the bargaining problem.
- Prospective Regulation: We are going to have collective bargaining after unionization, or we are going to move from regulated prices (pipelines and oil drillers). Depends on where we think the ability to set prices will end up, this may lead to more or less inefficiency relative to the case of efficient bargaining.

Empirics: Coal and Power Plants

- Unusually good data on negotiated prices for coal, and who is buying from whom.
- Power Residual Demand Curves from bidding and Mine Extraction Costs provide excellent information on cost-benefit curvature of quantity. Hard to find such good examples in the literature that tends to be about costs (oil production), or demand (auctions).
- What is difficult in this context is the sole sourcing assumptions: to what extent are prices discipled by substitution to other firms.

Thank you.