Opportunism in Vertical Contracting: A Dynamic Perspective*

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Abstract

This paper proposes a dynamic approach to modeling opportunism in bilateral vertical contracting between an upstream monopolist and competing downstream firms. Unlike previous literature on opportunism which has focused on games in which the upstream firm makes simultaneous secret offers to the downstream firms, we model opportunism as a consequence of asynchronous recontracting in an infinite-horizon continuous-time model. We find that the degree of opportunism depends on the absolute and relative reaction speeds of the different bilateral upstream-downstream firm pairs and on the firms' discount rate. Patience, fast reaction speeds, and asymmetries in reaction speeds across upstream-downstream pairs are shown to alleviate the opportunism problem.

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