Opportunism in Vertical Contracting: A Dynamic Perspective*

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This version: November 9, 2021
First version: September 21, 2020

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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*We are grateful to Paulo Barelli, Michael Raith, Nicolas Schutz, Lucy White, Volker Nocke and audiences at the CEPR Virtual IO seminar, the Macci Summer Institute in Competition Policy, DICE, UT Dallas, the University of Rochester, the National University of Singapore, the Paris School of Economics, and EARIE for helpful feedback and comments. Any errors are our own.

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