Bargaining Models

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Illustrative Example

- **1 upstream content provider**
  - Little competition from other content (e.g., CNN or ESPN)
- **2 downstream distributors**
  - 1 small and 1 large
- **Linear demand**
- **Merger effects under 2 alternative models of upstream pricing**
  - TIOLI : Content provider makes a take-it-or-leave-it offer to each distributor
  - Bargaining : Content provider negotiates with each distributor
- **TAKE AWAY:** VERY DIFFERENT RESULTS ACROSS MODELS

		w1	w2	p1	p2	q1	q2
TIOLI Observable contracts	No merger	$56	$56	$64	$67	80	176
	U-D1 merger	NA	-2%	-7%	-2%	41%	-6%
	U-D2 merger	-1%	NA	-7%	-15%	-49%	73%
TIOLI Unobservable contracts *Passive beliefs*	No merger	$64	$62	$70	$71	55	155
	U-D1 merger	NA	-10%	-15%	-8%	104%	6%
	U-D2 merger	-13%	NA	-14%	-20%	-26%	96%
TIOLI Unobservable contracts *Wary beliefs*	No merger	$60	$58	$67	$68	64	174
	U-D1 merger	NA	-4%	-11%	-4%	76%	-6%
	U-D2 merger	-8%	NA	-10%	-17%	-36%	75%

- w1, w2 : upstream prices of content
- p1, p2 : downstream prices ("a la carte")
- q1, q2 : sales volume
- D1 , D2 : small distributor, large distributor
- U : Upstream content provider

- TIOLI implies little if any anticompetitive effects, which is **consistent with the Chicago school**
  - **There is no raising rival's cost (RRC)**
  - **All prices fall post-merger**
  - Robust to different observability assumptions

- Merged firm expands dramatically
- Rival distributor typically loses sales, not because of RRC but because merged firm reduces price

- Intuition : Large inefficiency or double mark-up problem pre-merger, because U has all the bargaining power.

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	U-D2 merger	-1%	NA	-7%	-15%	-49%	73%
Bargaining Observable contracts	No merger	$33	$35	$47	$52	137	271
	U-D1 merger	NA	32%	16%	14%	-9%	-23%
	U-D2 merger	59%	NA	24%	6%	-62%	14%
Bargaining Simultaneous pricing	No merger	$52	$49	$60	$63	84	214
	U-D1 merger	NA	1%	-7%	-1%	43%	-10%
	U-D2 merger	3%	NA	-3%	-11%	-43%	43%

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- With observable contracts, the bargaining model yields very different results from the TIOLI model, which is **consistent with the post-Chicago school**
  - **There is substantial RRC**
  - **All prices rise post-merger**

- Intuition : Inefficiency or double mark-up problem pre-merger is much smaller, because D1 and D2 have bargaining power

- With unobservable contracts, the bargaining model of Crawford et al. (2017) yields results similar to the TIOLI model