

Using List Prices to Collude or to Compete?

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Overview

- Theoretical paper, modelling bargaining with asymmetric downstream firms, list prices and discounts, potential non-linear prices (but "frictions"), and scope for upstream collusion.
- Predictions of various models are contrasted with an empirical case: The publication of wholesale list prices for fresh eggs in Chile, and the sudden end of publication.

- Stylized facts of the case: End of publication of wholesale prices resulted in
 - reduction in both list prices (at which smaller retailers buy) and discounted prices (for larger retailers);
 - and a reduction of discounts (i.e., effect on discounted prices is smaller).

Model (choice)

- Focus on model variant that seems to match evidence best (and is also more straightforward).
- Each upstream firm U_i supplies independently to a large buyer B_i and to small buyers, modelled through a (fringe) demand curve. Linear pricing.
- All buyers compete in quantities in one downstream market.
- Competitive model with public list prices:

- List prices are observably set. Subsequently, simultaneous negotiations with large buyers.
- Quantity-setting stage.

Effect of list prices

- Key effect: Higher list prices to small buyers enhance bargaining position vis-à-vis large buyer.
- But trade-off: Higher wholesale prices for own buyers reduce their demand, including strategic effect on rival buyers from other supplier.
- Impact of switch to collusive regime (on public list prices).
 - Jointly optimal list prices are higher ("downstream competition effect").
 - This pushes up also discounted/negotiated prices, but to a lesser extent. Sales of large buyer expand.

From public to private list prices

- Key change: Rival supplier (at downstream market) no longer observes any upstream price. Assumption that this ends collusion.
- Modelling question: Does the large buyer still observe the list price (=price paid by small buyers)?
 - Paper assumes simultaneity of negotiating with large buyer and setting (list) price for small buyers.
 - In this case, analyze implications of private prices with/without collusion?
- Result: Drop in wholesale prices, with larger drop in list (small buyer) prices.

Final comments

- Very rich (initial) setting. Many insights throughout.
- But make exposition easier? [E.g., start with "this" model, subsequently discuss commitment model with/without fixed transfer, i.e., possibly only extremes without endogenization through frictions.]
- Tying to literature/markets: Particular feature that list prices are effectively paid fully by one group of buyers, i.e., zero discounts. [But downstream interaction is key, i.e., no B2C sales.]