Dynamic Vertical Foreclosure

Abstract:

This paper shows that vertical foreclosure can have a dynamic rationale. By refusing to supply an efficient downstream rival, a vertically integrated incumbent sacrifices current profits but can exclude the rival by depriving it of the critical profits it needs to be successful. In turn, monopolising the downstream market may prevent the incumbent from losing most of its future profits because: (a) it allows the incumbent to extract more rents from an efficient upstream rival if future upstream entry cannot be discouraged; or (b) it also deters future upstream entry by weakening competition for the input and reducing the post-entry profits of the prospective upstream competitor.

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