

Midlands Economics Theory and Applications (META) Workshop
Abstracts of papers

Ricardo Goncalves (Porto):

Revenue Sharing Agreements in Regulated Sectors (joint work with Mariana Cunha)

Abstract: In a simple two-segment supply chain, we analyze the desirability and properties of revenue sharing agreements, in regulated sectors, compared to two different scenarios: retail competition and upstream regulation. Our model incorporates the possibility that the downstream firms exert retail effort to stimulate demand. In doing so, they add an additional (effort-related) externality to the supply chain (on top of the negative pricing externality). We find such revenue sharing agreements to be mutually beneficial to firms as well as welfare enhancing, although when retail effort is relevant, they do not yield a first-best outcome. These results provide several interesting policy and regulatory recommendations