

COUNTERVAILING POWER AND DYNAMIC EFFICIENCY

Roman Inderst
Goethe University Frankfurt
Imperial College London

Christian Wey
DIW Berlin
TU Berlin

Abstract

This paper studies the impact of buyer power on dynamic efficiency. We consider a bargaining model in which buyer power arises endogenously from size and may impact on a supplier's incentives to invest in lower marginal cost. We challenge the view frequently expressed in policy circles that the exercise of buyer power stifles suppliers' incentives. Instead, we find that the presence of larger buyers keeps a supplier "more on his toes" and induces him to improve the competitiveness of his offering, in terms of both price and quality, relative to buyers' alternative options. (JEL: L25, L41)