COUNTERVAILING POWER AND DYNAMIC EFFICIENCY

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Abstract

This paper studies the impact of buyer power on dynamic efficiency. We consider a bar-gaining 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)