DO ECONOMISTS HAVE ANYTHING USEFUL TO SAY ABOUT JOA's?

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THERE ARE THREE TYPES OF JOA's TO CONSIDER

- JOA's THAT RESULT IN JOINT PRICING BUT NO COST SAVINGS

- JOA's THAT PRESERVE INDEPENDENT PRICING & ACHIEVE COST SAVINGS

- JOA's THAT ASSERT COST SAVINGS AND THE NEED FOR JOINT PRICING

ONLY THE THIRD TYPE OF JOA PRESENTS INDEPENDENT ECONOMIC ISSUES

- THE FIRST TYPE OF JOA IS PRICE FIXING, PRESUMABLY ANTICOMPETITIVE
- THE SECOND TYPE OF JOA IS A COMPETITIVE RULES JOINT VENTURE, PRESUMABLY PRO-COMPETITIVE
- THE THIRD TYPE COULD BE PRO- OR ANTICOMPETITIVE

JOA's THAT SIMULTANEOUSLY CLAIM COST SAVINGS & THE NEED FOR JOINT PRICING

KEY ECONOMIC QUESTIONS:

- CAN COST SAVINGS BE ACHIEVED WITHOUT JOINT PRICING?

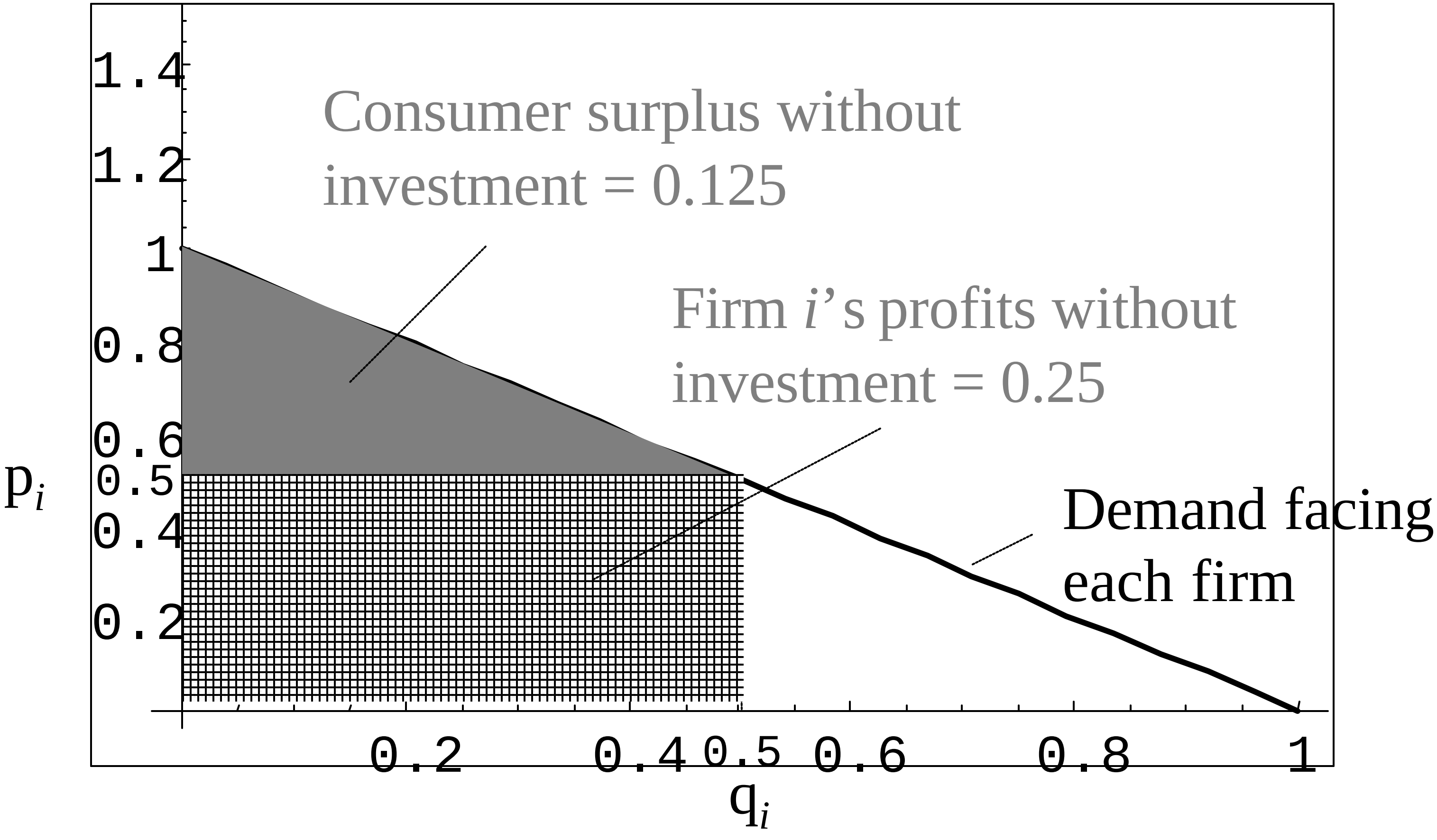
- CAN <u>ALL POSSIBLE</u> COST SAVINGS BE ACHIEVED WITHOUT JOINT PRICING?

ANALYTICAL FRAMEWORK

Assume:

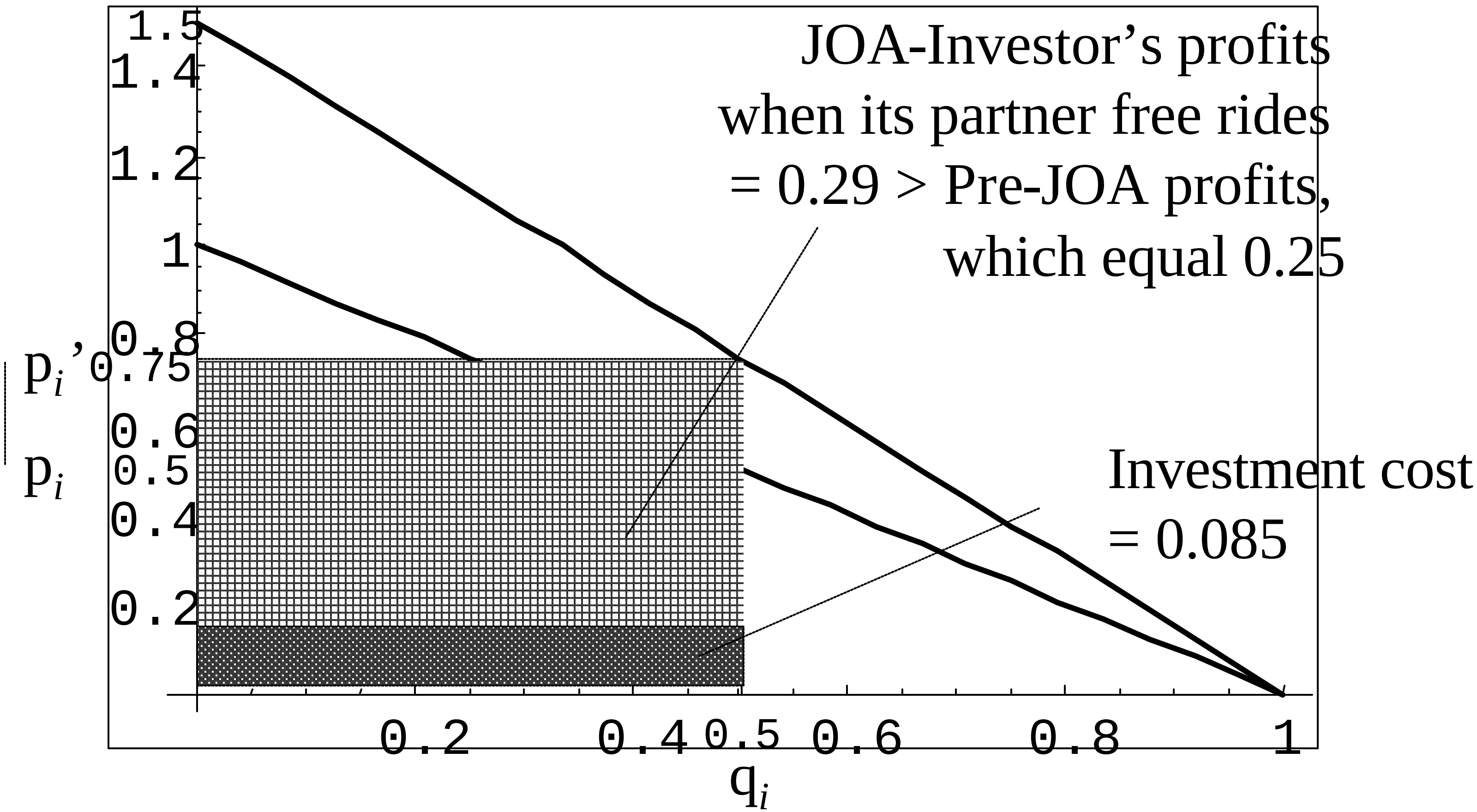
- Two firms enter into a JOA
- If only one JOA partner invests, quality and brand differentiation increase for both JOA partners
- If both JOA partners invest, quality and brand differentiation increase even further
- JOA partners cannot fully monitor each other's investment behavior
- All costs other than sunk investment cost are zero.

Pre-JOA Equilibrium for Each Firm

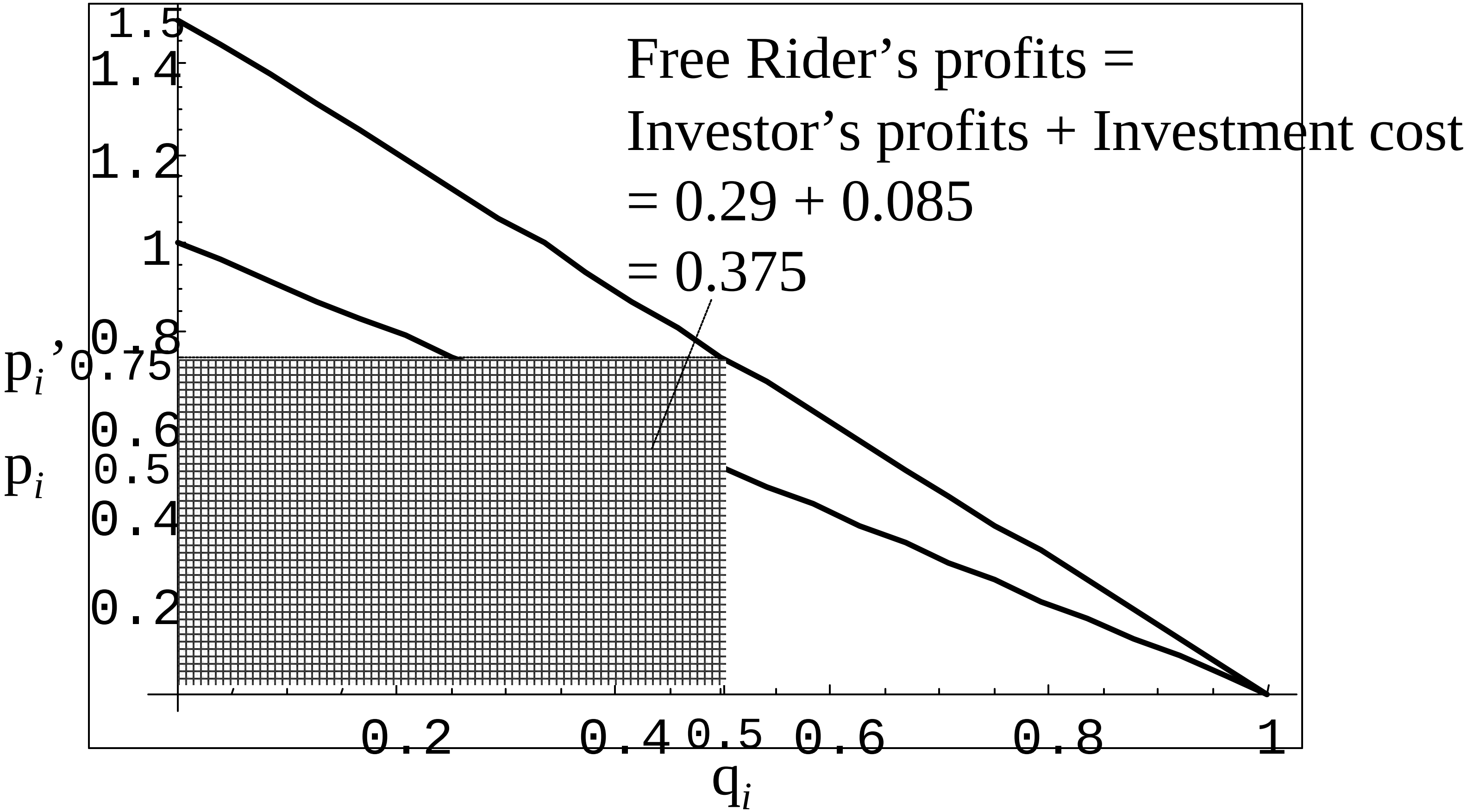


POST-JOA INDEPENDENT PRICING

JOA-Investor's Profits When Its Partner Free Rides

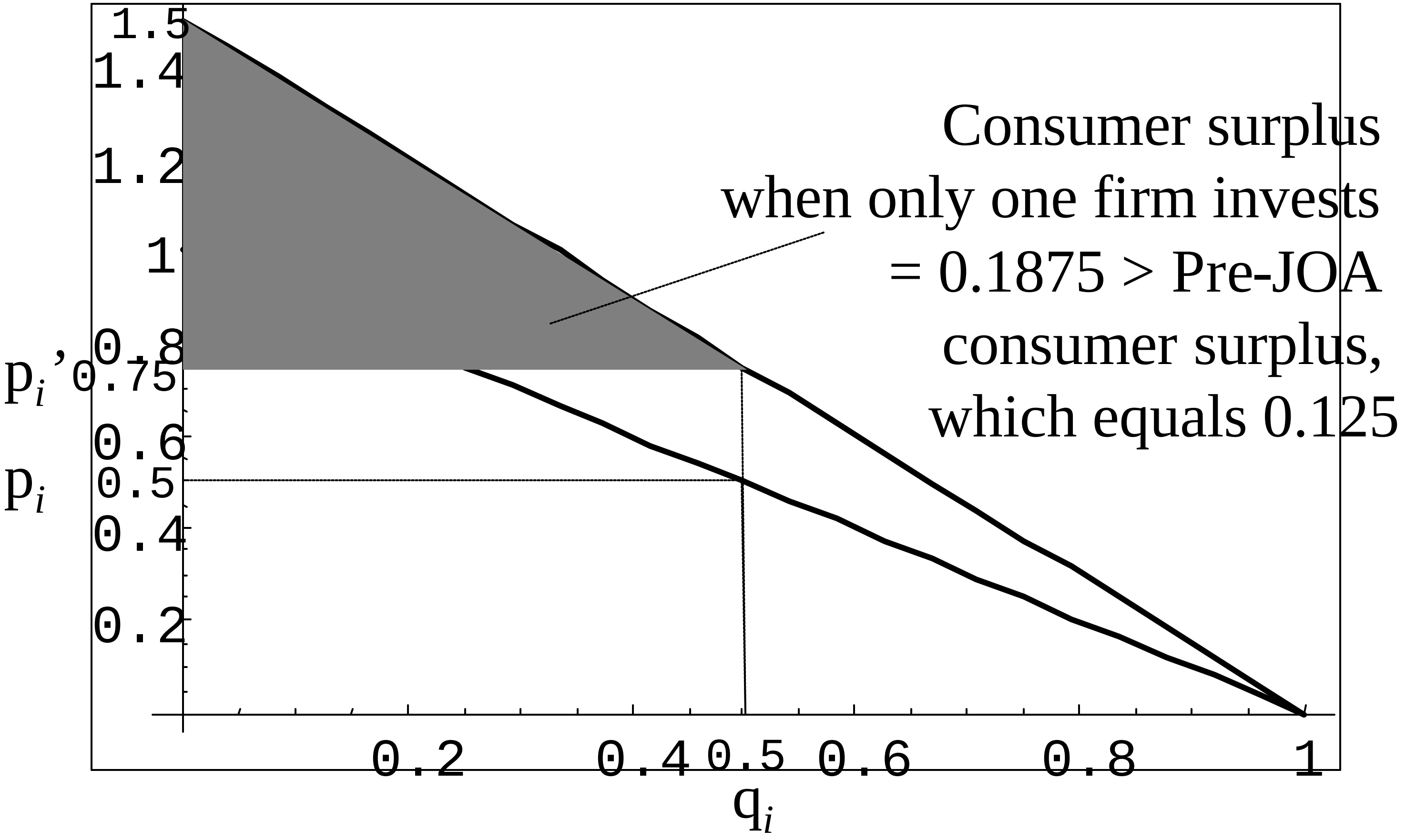


POST-JOA INDEPENDENT PRICING
Free Rider's Profits When Its JOA Partner Invests



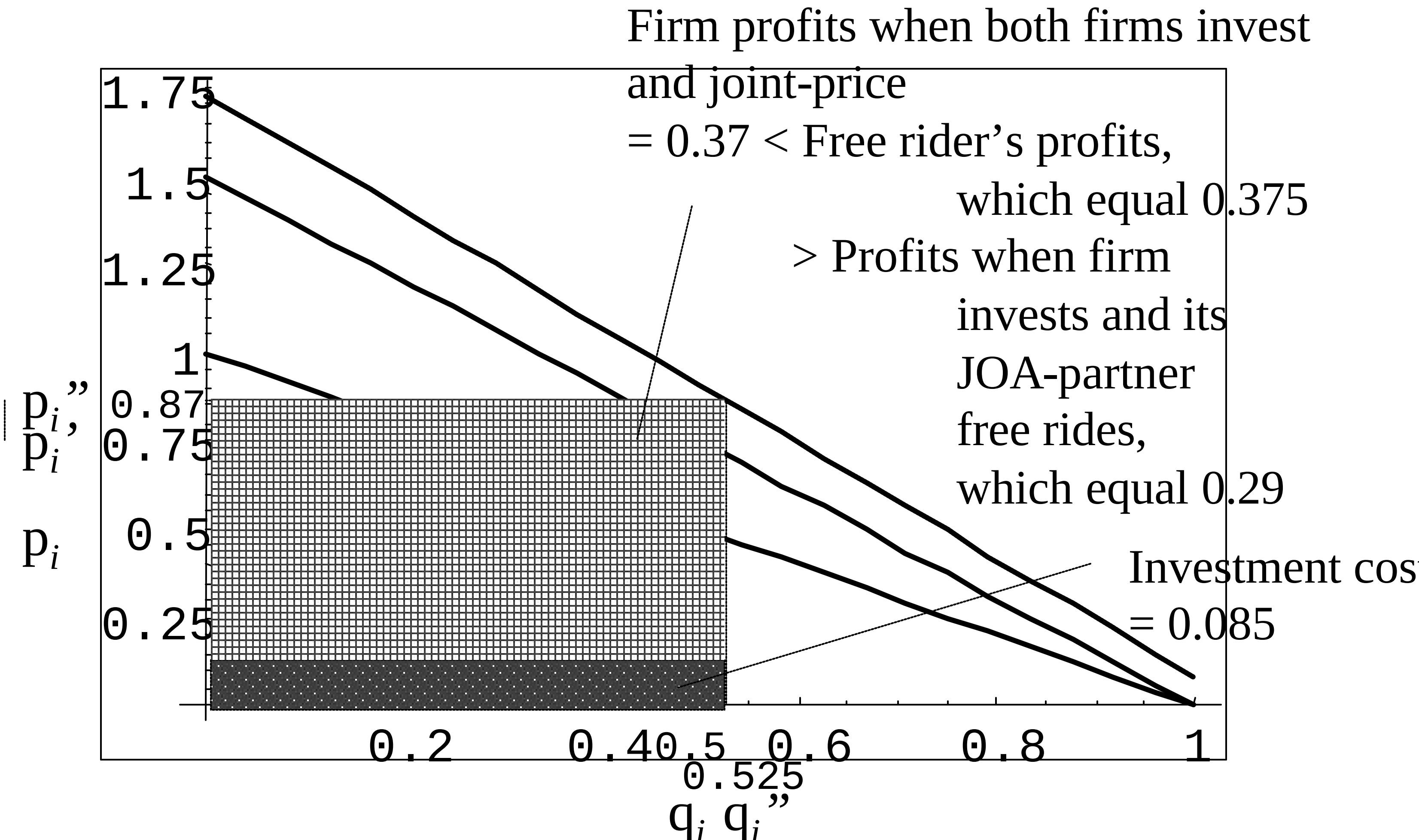
POST-JOA INDEPENDENT PRICING

Consumer Surplus When Only One JOA Member Invests and the Other Free Rides

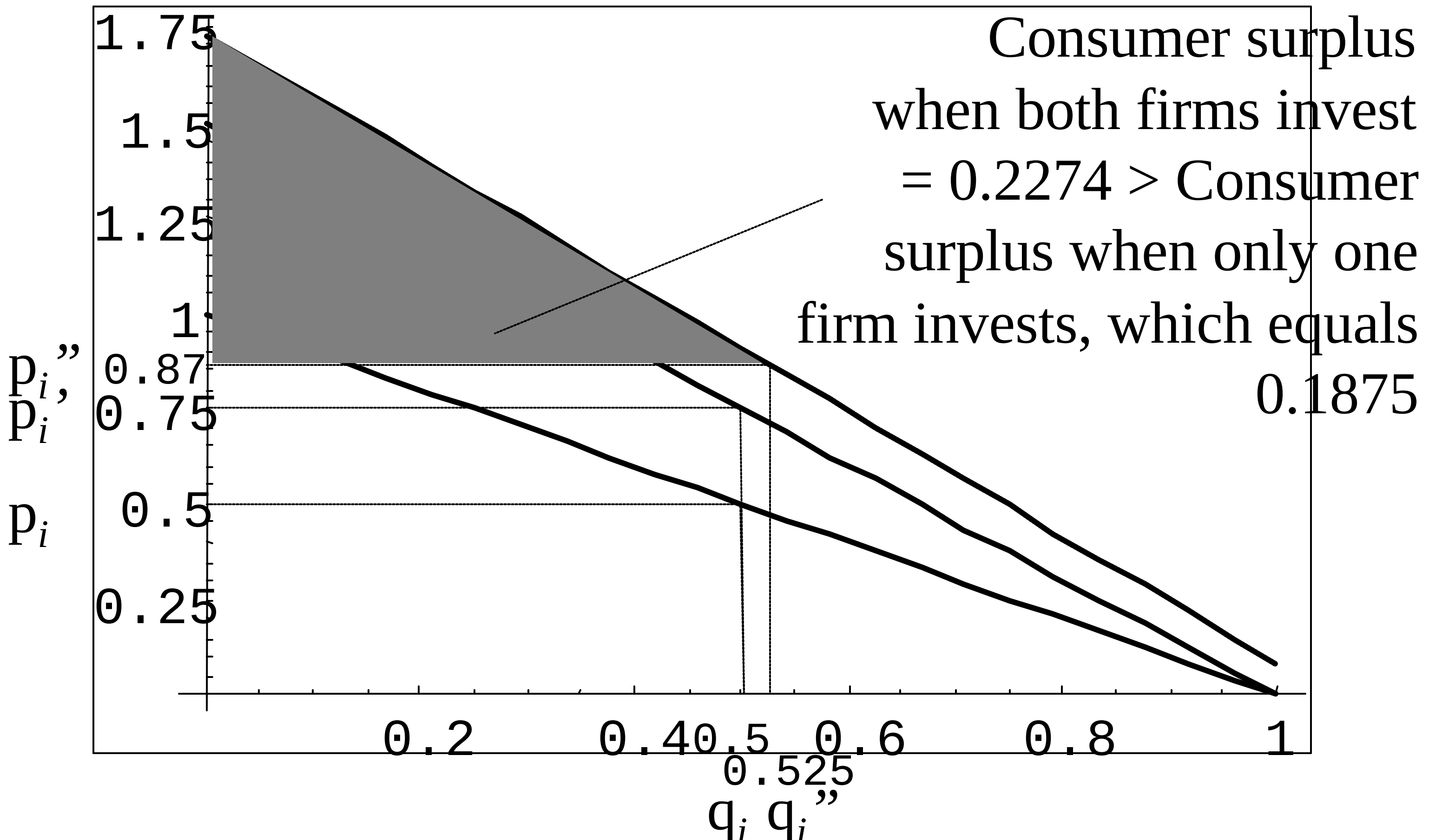


POST-JOA JOINT PRICING

Profits When Both Firms Invest and Joint-Price



POST-JOA JOINT PRICING
Consumer Surplus When Both Firms Invest and Joint-Price



Asymmetric Nash Equilibria When JOA Partners (A and B) Do Not Joint-Price

There are two Nash equilibria in which one firm invests and the other free rides		B's strategy	
		Invest	Do not invest
A's strategy	Invest	0.37, 0.37	0.29, 0.375
	Do not invest	0.375, 0.29	0.25, 0.25

When Investment Costs Are Sufficiently Low, Both JOA Partners Choose to Invest Even When They Do Not Joint-Price

There is a unique Nash equilibrium in which both firms invest		B’s strategy	
		Invest	Do not invest
A’s strategy	Invest	0.43, 0.43	0.35, 0.375
	Do not invest	0.375, 0.35	0.25, 0.25

CONCLUSION

- ECONOMIC THEORY IS INDETERMINATE; JOINT-PRICING MAY REDUCE OR INCREASE CONSUMER WELFARE

- LIKELY RESULT DEPENDS ON:

1. EACH PARTY'S WILLINGNESS TO INVEST PRE-JOA

2. NATURE AND MAGNITUDE OF JOA-RELATED SAVINGS, E.G. AMOUNT OF IMPROVEMENT IN QUALITY

3. AMOUNT OF MARKET POWER CREATED

4. ABILITY TO WRITE AND ENFORCE A CONTRACT THAT MINIMIZES POST-JOA FREE-RIDING