Naked Exclusion, Efficient Breach, and Downstream Competition

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Abstract

Previous papers by Eric B. Rasmusen et. al. (1991) and Ilya R. Segal and Michael D. Whinston (2000) argue that exclusive contracts can inefficiently deter entry in the presence of scale economies and multiple buyers. We show that these results no longer hold when buyers are final consumers who, as contract law requires, can breach these contracts and pay expectation damages or renegotiate these contracts. If buyers are downstream competitors, however, then exclusive contracts can inefficiently deter entry provided the degree of competition is great enough. Scale economies, however, are not necessary for this result.