

CORE DISCUSSION PAPER
2006/59

SUSTAINABLE COLLUSION ON SEPARATE MARKETS

Paul BELLEFLAMME¹ and Francis BLOCH²

June 2006

Abstract

When firms can supply several separate markets, collusion can take two forms. Either firms establish production quotas on all the markets, or they share markets. This paper compares production quotas and market sharing agreements in a Cournot duopoly where firms incur a fixed cost for serving each market. We show that there exists a threshold value of the fixed cost such that collusion is easier to sustain with production quotas below the threshold and with market sharing agreements above the threshold. These results are obtained both under Nash reversion strategies and the globally optimal punishment strategies introduced by Abreu (1986).

Keywords: implicit collusion, market sharing agreements, production quotas, optimal punishment.

JEL Classification: L11, L12.

¹CORE and Louvain School of Management, Université catholique de Louvain, Belgium. E-mail: belleflamme@core.ucl.ac.be

²Université de la Méditerranée and GREQAM, Marseille, France.
Email: bloch@ehess.univ-mrs.fr

This paper presents research results of the Belgian Program on Interuniversity Poles of Attraction initiated by the Belgian State, Prime Minister's Office, Science Policy Programming. The scientific responsibility is assumed by the authors.