Quality Uncertainty in Vertical Relations

Comments by Jacques Crémer Background: rise in product failures that involve substantial safety and health issues.

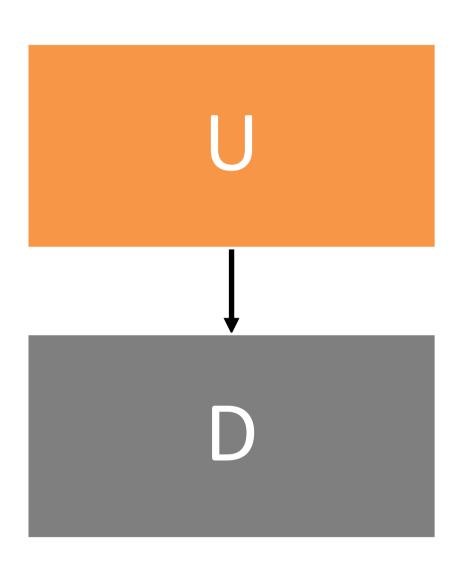
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Model: a model to see how downstream firm can control quality of upstream supplier





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Exogenous

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Why this choice of modelisation? What are the consequences

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• Demand functions: $X(\text{prices};\theta)$ and $Y(\text{prices};\theta)$ Externalities between products

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Why this specification rather than normal vertical integration?

Externalities between products



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Restrictions on contracts: payment to U is $w(\theta)X + F(\theta)$.



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D maximizes

 $(p-w)X(p,q,\theta)+qY(p,q,\theta).$



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Why isn't the choice of $\overline{\theta}$ part of the negociation ?

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Authors present some results about target quality $(\overline{\theta})$, but I do not understand the interpretation: at the minimum inefficiency should be thought of in terms of expected quality $((1-\rho)\underline{\theta}+\rho\overline{\theta})$.

Conclusions

- Why use a repeated game framework?
- If repeated aspect is important, why not use a Levin (relational contract) type framework?
- Link between introduction, model and conclusions.