

REASONS WHY FIRMS IMPOSE VERTICAL RESTRICTIONS

① TO AVOID DOUBLE MARGINALIZATION (DOUBLE MARKUP)
 ↳ HURTS BOTH FIRMS AND CONSUMERS
 AS DISCUSSED EARLIER.

② TO REDUCE FREE-RIDER PROBLEM AMONG DISTRIBUTORS

SOME DISTRIBUTOR MAY SPEND TOO LITTLE ADVERTISING EXPENDITURE AS THEY CAN BENEFIT FROM ADVERTISING EFFORT OF OTHER DISTRIBUTORS → "FREE-RIDER PROBLEM"

③ TO REDUCE FREE-RIDER PROBLEM AMONG MANUFACTURERS

④ TO REDUCE THE COORDINATION FAILURE AMONG DISTRIBUTORS

- IN THE CONTRACT, ZONING MAY BE SPECIFIED.

, DISTRIBUTOR A MAY SEND AUTO PARTS & ACCESSORIES TO DISTRIBUTOR B WHEN IT REQUESTS TO BENEFIT CUSTOMER AT B.

EFFECT OF VERTICAL RESTRICTION

- IT ALWAYS BENEFITS PRODUCERS BUT NOT ALWAYS BENEFITS CONSUMERS.
- IT WILL BE DESIRABLE FOR BUYERS IF
 - IT MAKES A LOWER PRICE.
 - " " " " MORE OUTPUT &
- IT WILL BE UNDESIRABLE IF
 - IT RAISES RIVAL'S COST AND PREVENT ENTRY
 - IT FACILITATES "CARTEL" !

FRANCHISING → CAN USE TO AVOID DOUBLE MARKUP PROBLEM.

FRANCHISOR	NO. OF OUTLETS	FRANCHISE FEE	ROYALTY + MARKETING FEE
7-11	> 8000	1,500,000	N.A
KUMON	450	150,000	40-55% OF REVENUE
AMERICAN EXPRESS		150,000	0% ..

①	KUMON	450	150,000	40-55% OF REVENUE
②	HOKKAIDO MILK	> 45	150,000	8% OF REVENUE
			↓	↓
			LUMP-SUM FEE	VARIABLE FEE
				(% OF REVENUE)

DO QUESTION 5 IN CHAPTER 12

DUE DATE

NEXT THURSDAY 11 MAY

BY 16.00 PM

AT B.E. OFFICE