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Vertical Integration and Downstream Collusion

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Highlights

- We study the effects of a vertical merger on downstream firms' ability to collude in a repeated game framework.
- Vertical integration increases the total collusive profits, but it creates an asymmetry between the integrated firm and the unintegrated competitors.
- The optimal collusive profit-sharing agreement takes care of the increased incentive to deviate of the integrated firm.
- Optimal punishment erases the difficulty related to the asymmetries in the non cooperative state.
- As a result, vertical integration generally favors collusion.

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