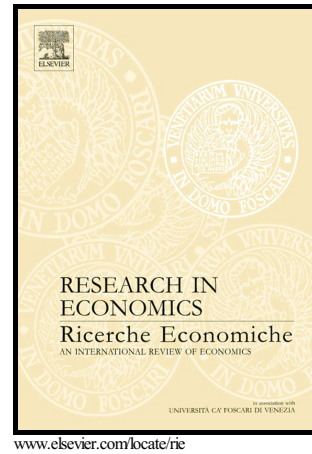


## Author's Accepted Manuscript

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PII: S1090-9443(16)30208-3  
DOI: <http://dx.doi.org/10.1016/j.rie.2016.11.005>  
Reference: YREEC701

To appear in: *Research in Economics*

Received date: 29 August 2016  
Accepted date: 29 November 2016

Cite this article as: Joseph E. Harrington, A theory of collusion with partial mutual understanding, *Research in Economics* <http://dx.doi.org/10.1016/j.rie.2016.11.005>

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# A Theory of Collusion with Partial Mutual Understanding\*

Joseph E. Harrington, Jr.<sup>†</sup>

December 8, 2016

## Abstract

Unlawful collusion is when firms have a mutual understanding to coordinate their behavior for the purpose of achieving a supracompetitive outcome. Given the legal focus on mutual beliefs, this paper explores the role of mutual beliefs in producing collusion. Focusing on price leadership, firms are assumed to commonly believe that price increases will be at least matched but lack any shared understanding about who will lead, when they will, and at what prices. Sufficient conditions are derived which ensure that supracompetitive prices emerge. However, price is bounded below the maximal equilibrium price.

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\*I am grateful for the comments of Emiliano Catonini, Peter Dijkstra, George Mailath, Phil Reny, and Nikos Vettas; seminar participants at Pompeu Fabra, Universitat de València, Penn-Wharton, U.S. Department of Justice, Toulouse School of Economics, U. of Rochester-Simon School, and the U. of Chicago; and conference participants at EARIE 2011, 2nd MaCCI Summer Institute in Competition Policy, and XXVII Jornadas de Economía Industrial. This research was partly conducted under a Cátedras de Excelencia at Carlos III de Madrid. I want to thank Banco Santander for funding and the faculty for providing a most collegial environment. This research has been conducted with the financial support of the National Science Foundation (SES-1148129).

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