Vertical Integration, Bundled Discount and Welfare

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Abstract
This paper studies the firms’ incentive for vertical integration and bundled discounts of complementary services. We suppose that firms first choose market structures and pricing schemes, and then compete in prices. We found that vertical integration and mixed bundling is a dominant strategy for all firms. Whereas, except for the systems of components that are very strongly differentiated, total surplus is at the maximum under the individual ownership with bundled discounts. Thus, our model suggests that the restriction against vertical integration is almost beneficial for both firms and consumers. Our result has an important policy implication for the broadband markets.

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