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Vertical relations in cartel theory: managerial incentives, buyer groups & antitrust damages

Han, M.A.

Publication date
2011

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Citation for published version (APA):

Han, M. A. (2011). *Vertical relations in cartel theory: managerial incentives, buyer groups & antitrust damages*.

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Martijn Alexander Han (1980) holds an MSc in Econometrics & Mathematical Economics (2007, “with distinction”) from the London School of Economics & Political Science. He also obtained a BSc in Econometrics (2006, “cum laude”), an MSc in Medicine (2005), and a propeadeutics in Cultural studies (2003) from the University of Amsterdam.

Martijn’s research is on the economics of competition, with a focus on cartels. This dissertation was written from 2007 – 2011 at the Amsterdam Center for Law & Economics and during a research visit at the Toulouse School of Economics. Chapter 2 was awarded the 2011 Robert F. Lanzillotti Prize for the best paper in antitrust economics at the annual International Industrial Organization Conference (IIOC) organized in Boston, April 2011.

In the summers of 2007 and 2008, Martijn worked as an Assistant Economist at the U.K. Competition Commission and as an Economic Summer Intern at the U.K. Office of Fair Trading. He also assisted in several private economic consultancy projects.

In addition to his theoretical interest in competition economics, Martijn is an active market competitor himself. He co-created a small t-shirt label, runs an online shop in lamps, and recently founded a GMAT test-preparation agency. Martijn enjoys applying economic theory to his ventures, which, in turn, serve as an inspiring source for academic research.

The **Amsterdam Center for Law & Economics** is a joint initiative of the Amsterdam School of Economics and the Law School at the University of Amsterdam. The objective of the ACLE is to promote research in the fields at the interface of law and economics.

ACLE Dissertation Series No. 4
ISBN 978 90 817645 0 6

cartel
competition policy

A cartel is a group of firms collectively attempting to restrict competition among them. Cartel members most commonly do so by fixing prices, sharing markets, or rigging bids.

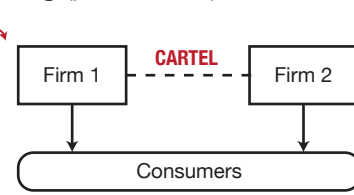
Competition policy is the set of legal measures to fight cartels and to protect fair competition in the market. This dissertation aims to contribute to the theoretical basis of competition policy.

vertical relations

I extend the basic horizontal model of cartels by allowing for vertical relations within (part I) and among (parts II & III) firms.

cartel theory

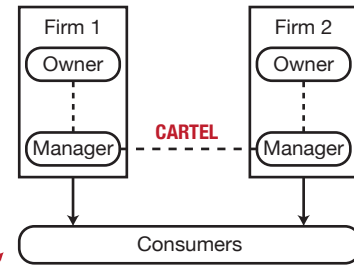
The horizontal model in cartel theory assumes that firms interact as profit-maximizing black boxes on the market.



like this

PART I managerial incentives

Virtually all discovered cartels are operated by managers whose incentives may not be fully aligned with those of the owners. Part I investigates the impact of managerial incentives on the stability and behavior of cartels.



like that

PARTS II & III buyer groups & antitrust damages

Part II develops a model of buyer groups effectively functioning as cartels. Part III studies how the economic damages resulting from a cartel are distributed along a vertical production chain.

key results

- > Well-designed **corporate compliance programs** can complement leniency programs by triggering a **“vertical race to the courthouse”**
- > **Short-term** employment contracts can **facilitate cartels**
- > Intra-firm **strategic delegation** can **improve cartel stability**
- > A **buyer group** on the input market can **induce cartel profits** on the output market without engaging in *per se* illegal interaction
- > The **overcharge** imposed by a cartel on its direct purchasers is an **imprecise proxy for antitrust harm** suffered by indirect purchasers



Background material to this dissertation is available at carteltheory.com. You can find my research and papers in their most updated form, as well as media files on cartels, such as a Netherlands Competition Authority (NMa) film on leniency programs; the trailer of cartel movie *The Informant* featuring Matt Damon; and undercover FBI footage of the Lysine Cartel’s secret hotel meetings (*Lysine Tapes*).

VERTICAL RELATIONS IN CARTEL THEORY

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Managerial Incentives, Buyer Groups & Antitrust Damages