

Welfare-Improving Mixed Collusion

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Abstract

We discuss the conditions for collusion to be sustainable in a mixed market. Our novelty is in considering that the government-owned firm may be a member of the cartel. We study how the objective function of the government-owned firm affects its willingness to tacitly collude, and the sustainability of the cooperative outcome. We conclude that collusion is easier to sustain when the government-owned firm weights equally social welfare and its own profit. The government-owned firm has more incentives to abide by the collusive agreement as the weight it attaches to consumer surplus increases. Finally, we provide an important insight to competition authorities as we find that the participation of a government-owned firm in the agreement may be sufficient to ensure that collusion is welfare-improving.

Keywords: Collusion, Competition, Mixed Markets.

JEL Classification Codes: D43, H44, L13, L51

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