

# Raising Retailers' Profits: On Vertical Practices and the Exclusion of Rivals: Erratum

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Song (2016) notes and corrects the following error in Asker and Bar-Isaac (2014).

The statement of Proposition 1 in Asker and Bar-Isaac (2014) reads:

**Proposition 1** *An exclusionary equilibrium (one in which the entrant does not enter) exists if and only if*

$$\frac{\pi_i^M - \pi_i^C}{n(1-\delta)} \geq \frac{\pi_e^C}{1-\delta} - F_e \quad (1)$$

The condition should be amended to

$$\delta \frac{\pi_i^M - \pi_i^C}{n(1-\delta)} \geq \frac{\pi_e^C}{1-\delta} - F_e. \quad (1')$$

Following (3) on p. 677 of Asker and Bar-Isaac (2014), we describe the incumbent's incentive constraint; however, we mischaracterize it. Given our timing assumptions it should appear as  $\frac{\pi_i^M - nT_i}{1-\delta} \geq \pi_i^M + \frac{\delta}{1-\delta}\pi_i^C$  rather than  $\frac{\pi_i^M - nT_i}{1-\delta} \geq \frac{\pi_i^C}{1-\delta}$  as implicit in the discussion. Substituting for the maximal value of  $T_i$ ,  $\bar{T}_i$  we obtain (1'). Moreover Condition (1') implies Condition (1). Hence, Condition (1) remains a necessary condition for exclusion, in ensuring that retailers would not accommodate entry.

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The error carries through to equations (5) and (6) in Asker and Bar-Isaac (2016) which build on Proposition 1. These should be altered as follows:

$$\delta \frac{\pi_i^M - \pi_i^C}{n} \geq \pi_e^C \quad (5')$$

and

$$\delta \frac{\pi_i^M}{n} \geq (c_i - c_e)q(c_i), \quad (6')$$

Thus, even in the absence of fixed costs, the discount factor plays a role; otherwise, the qualitative discussion in the remainder of the paper is unaffected.

## References

- [1] Asker, John and Heski Bar-Isaac (2014), Raising Retailers' Profits: On Vertical Practices and the Exclusion of Rivals, *American Economic Review*, 104(2): 672-86.
- [2] Song, Tianle (2016), Raising Retailers' Profits: On Vertical Practices and the Exclusion of Rivals: Comment, HKUST, mimeo