

Backward Integration and Risk Sharing in a Bilateral Monopoly

李堯賢, 林怡芯, 楊琮階

Finance

Management

hsien@chu.edu.tw

Abstract

This paper investigates implications of the first-order conditions à la Lee et al. (2006) to show that the principal's ordered quantity and profit-sharing ratio (i.e., backward integration) can affect the agent's cost-reducing effort. We also state the intuitions behind the propositions in the paper.

Keyword : risk-neutral; sunkness