

AGENCY PRICING AND BARGAINING: EMPIRICAL EVIDENCE FROM THE E-BOOK MARKET*

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Abstract

In 2012 the US Department of Justice banned the use of agency contracts in the market for e-books for a period of two years, which meant the return to more traditional wholesale-type contracts. Agency pricing has recently made a comeback in this market after the two-year ban on its use expired in 2014. Using a unique dataset of e-book prices both before and after this recent change in selling method, we show that prices went up substantially following the shift at Amazon but remained relatively flat at Barnes & Noble. To explain these price changes, we structurally estimate a bargaining model in which publishers bilaterally bargain with retailers over input contracts. Our estimates of the bargaining power parameters indicate that the retailers have more bargaining power than the publishers. Moreover, our findings show that the bargaining model gives a better fit to the data than a model with take-it-or-leave-it input contracts.

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