Vertical Foreclosure using Exclusive Dealing: The Case of Hamburger Restaurants in Shopping Malls

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Abstract

Whether exclusive dealing arrangements enhance or reduce welfare is one of the most controversial issues in the economic analysis of antitrust. Nevertheless, existing empirical evidence supports only welfare-increasing arguments. I study how sales and costs of hamburger restaurants located in shopping malls are affected by exclusive dealing, namely a mall owner commitment not to let another hamburger restaurant enter the mall. The main findings are a negative relationship between mall sales of hamburgers and exclusive dealing and a positive relationship between exclusive dealing and the rent paid to the mall owner. These findings are consistent with vertical foreclosure models and suggest that these arrangements are detrimental to welfare. The analysis also addresses the endogeneity problem: why exclusive dealing arrangements are adopted only in some malls. I provide evidence that effective arrangements are adopted in malls where the incumbent restaurant can prevent entry by a rival restaurant.

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