

Hit Where it Hurts: Cartel Policing Using Targeted Sales Embargos

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Abstract

In this paper, we examine a punishment strategy employed by a large cartel to police its members. The cartel punishes its defectors in a key product or regional market where it hurts them the most, not necessarily in the market where the defection has occurred. Cartels can leverage this targeted punishment strategy to induce good behavior across multiple, distant markets. We find evidence consistent with these ideas in examining several episodes of punishment imposed by the association of traders in India on select pharmaceutical firms. Such punishments result in private costs for defecting firms and social costs for consumers in India. Our results support the theoretical view that growing buyer power in conjunction with vertical restraints facilitates collusion.

Speaker Profile:

Ajay Bhaskarabhatla is an Assistant professor at Erasmus School of Economics, Netherlands. His research interest include Industry Evolution, Incentives for Innovation, Healthcare Markets He has a PhD from Carnegie Mellon University and MS from Georgia Institute of Technology.

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