

# Exclusive Contracts under Limited Liability Constraints

Hiroshi Kitamura\*  
Graduate School of Economics, Osaka University

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## Abstract

This paper constructs a model of anticompetitive exclusive dealing in the presence of limited liability constraints. Because of limited liability constraints, the incumbent cannot stay in business if a deviant buyer appears. We point out that the existence of limited liability constraints eliminates the buyer's profit to deviate from exclusive contracts. Compared to previous studies, the possibility of exclusion drastically increases: the exclusion arises even when buyers compete less intensively.

**JEL Classifications Code:** L12, L41, L42.

**Keywords:** Vertical Relation; Exclusive Contracts; Limited Liability Constraints.

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\*Address: Graduate School of Economics, Osaka University, 1-7 Machikaneyama, Toyonaka, Osaka, 560-0043, Japan.  
Email address: gge003kh@mail2.econ.osaka-u.ac.jp