Abstract

We develop a property-rights model of endogenous market structure in which contracting imperfections, rather than scale economies, emerge as the source of market power. Production of a homogenous good is carried out by substitutable, incentive-constrained teams that can stand alone as perfect competitors or sell their assets to profit-motivated HQs, thereby becoming subordinate members of their firms. HQs subsequently Cournot compete in the product market. Team output and costs aggregate linearly within and across firms, there are no diseconomies of HQ ownership, and HQs are abundant.

A fundamental "hold-out" problem places lower and upper bounds on the degree of concentration. The equilibrium market structure is typically an oligopoly, sometimes with a competitive fringe. Concentration may increase with the size of the market, unlike in the standard Cournot entry model.

Entry barriers and competition policy may have distinct effects depending on the demand regime, which has implications for optimal policy in rich vs. developing countries.