

INCENTIVES FOR PRODUCTION JOINT VENTURES

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ABSTRACT

This paper explores whether existing producers of a homogeneous commodity have any incentive to set up a horizontal joint ventures to compete with the parent firms in the same industry. This issue is linked with the nature of the joint venture itself and the degree to which the joint venture can help coordinate individual firms' action. It is found that, under Cournot competition, the joint venture productions are Pareto improving to the pre joint venture situation. The degree of the improvement depends on the structure of the joint venture itself and the parent control patterns on joint ventures.

Keywords: *Joint Ventures, Production, Cournot Game*