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Luís Vasconcelos

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A SIGNALLING-BASED THEORY OF CONTRACTUAL COMMITMENT TO RELATIONSHIPS*

LUÍS VASCONCELOS[†]

ABSTRACT. In this paper I present signalling as an explanation for how and why parties commit to relationships when they initially contract about the terms of those relationships. Two forms of contractual commitment to a relationship are considered: a promise to trade in the future (contracted quantity); and a promise not to trade with anyone else (contracted exclusivity). A party is said to commit more to a relationship if it commits initially to trade a higher quantity and/or to a higher level of exclusivity. I characterize equilibrium contracts and therefore commitment. Both the ability to signal information through an exclusivity commitment and whether the informed party commits more to the relationship when the relationship is more likely to succeed depend on the source of the asymmetry of information.

Keywords: Contractual commitment, signalling, informed principal.

JEL Classification: D2, D8, L14, J41.

1. INTRODUCTION

Parties' initial commitment to relationships may vary considerably from one case to another. For example, in the academic world, while universities often hire scholars offering them a tenured position, sometimes universities also hire scholars under a non-tenure contract that may be extended later on. Similarly, in the case of vertical relationships, while manufacturers often sell their products to consumers through many retailers, it is also common for manufacturers to concede exclusivity to one retailer. Such exclusivity contracts often take the specific form of exclusive territories. Finally, also in the case of vertical relationships, producers frequently

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[†]University of Essex and Nova School of Business and Economics. Contact information: lvasco@essex.ac.uk. Department of Economics, University of Essex, Wivenhoe Park, Colchester, Essex CO4 3SQ, UK.

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