Collusion and Innovation: The Case of LCD Cartel, 2001–2006

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Abstract

Collusion is difficult in innovative industries because the prospect of investments to achieve superior competitiveness weakens the incentive to cooperate with competitors. Nevertheless, high-profile cartel cases emerged in the liquid crystal display (LCD) panel industry in 2001–2006. We propose a tractable dynamic-oligopoly model of collusion with endogenous innovation to study the interactions between incentives to collude and innovate in this cartel. Our preliminary estimates suggest: (i) the LCD cartel achieved monopoly price levels in the first few years; (ii) the incentive to innovate would have been higher but for the cartel.