MISSING MARKETS AND THE COOPERATIVE FIRM

Abstract: Fixed costs limit opportunities for socially beneficial production and exchange in any setting where a firm’s consumers have private information about their individual valuations. A firm that is organized to maximize consumer welfare can expand the range of economic environments that support equilibrium production by requesting contributions from consumers prior to incurring its fixed cost. Further, committing to consumer interests ensures time-consistent pricing behavior, encourages demand revelation, and exploits the potential existence of other-regarding preferences. We use these results to interpret the emergence of cooperative enterprise as an endogenous institutional response to missing markets across a wide range of historical and sectoral contexts.

For questions or concerns, contact Tatiana Andreyeva (tatiana.andreyeva@uconn.edu).