

The Economics of Vertically Differentiated Markets

edited by Luca Lambertini

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reviewed by Nikolas Vettas*

This is a recent book edited and to a large extent written by Luca Lambertini, Professor at the University of Bologna. It contains 11 chapters: each is an original (previously unpublished) research paper, either single-authored (in 3 cases) or co-authored (in 8 cases) by Lambertini. Lambertini's co-authors are professors and other scholars based in Italian universities.

The collection of papers in this book belongs to the general area of industrial organization theory but also represents the important links and applications that industrial organization theory has developed - in the last few decades - to neighboring fields and sub-areas like regulation, competition policy, technology policy and international trade.

More specifically, all the chapters examine some aspect of firms' competition under vertical product differentiation. Vertical differentiation refers to products that differ with respect to their "quality". By definition, this is the case when all relevant consumers view all products as 'ranked' in the same way (and would choose to buy them in the same order of preference if price were not an issue). Otherwise, we would refer to horizontally differentiated products, different variety. Under vertical differentiation, lower quality products can survive in the market only when they are sold at a lower price than higher quality products. Consumers then self-select, with some of them buying high quality and high price combinations and some buying low quality and low price combinations. A number of interesting issues arise as to how sellers should choose their prices, product qualities, set of products offered and so on.

The articles presented in the book are arranged in two parts. The first part contains work on static issues and the second on dynamic issues. Each chapter (that is, each article) can be read and understood independently of the others and some readers may be more interested in one specific topic than another. However, there is some logic in the order in which the articles are presented, generally proceeding from the less to

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the more specific analyses and from more general to more specialized topics. Thus a reader who is interested in studying in depth matters related to vertical product differentiation will benefit most by studying the chapters in sequence.

Each chapter represents rigorous work, a careful combination of formal proofs and economic intuition. The book will be quite useful to graduate students, researchers and others working in the field of industrial organization. It can be understood by anyone with formal training in economics; however, it will be of most value to those with some experience of the theory of Industrial Organization at initial postgraduate level.