N° PROYECTO : 1140582  DURACIÓN : 3 años  AÑO ETAPA : 2016
TÍTULO PROYECTO : MULTISTAGE CONTEST WITH LIQUIDITY CONSTRAINTS AND PRIVATE INFORMATION
DISCIPLINA PRINCIPAL : TEORIA ECONOMICA
GRUPO DE ESTUDIO : CS. ECONOM/ADMI
INVESTIGADOR(A) RESPONSABLE : CARLOS ALBERTO PONCE BRUERA
DIRECCIÓN :
COMUNA :
CIUDAD : SANTIAGO
REGIÓN : METROPOLITANA

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MODIFICACIONES ACADÉMICAS

El informe no presenta modificaciones académicas.
Trademark Squatters: Theory and Evidence from Chile

**State.** One paper has been written and it is actually under ‘Revise and Resubmit’ to the ‘International Journal of Industrial Organization’.

**Description.** Brand recognition is a key asset: Consumers often identify the quality and attributes of a product or service through its brand name. For brand names to play this informative role, firms have to secure and guard proprietary rights on their brands, mostly in form of trademarks. In recent years, a new phenomenon called ‘trademark squatting’ has surged. This phenomenon describes a situation in which a company or individual registers a trademark that protects a trading name of another company. This latter company has usually invested in its trading name, but has not registered a trademark.¹ Squatters register such trademarks with the intention of extracting rents from brand owners.² A famous example is that of U.S. coffee shop chain Starbucks. When entering the Russian market in 2005, Starbucks faced the fact that its trademark was owned in Russia by an individual, Sergei Zuykov, who offered to re-assign the trademark for US$ 600,000. Instead, Starbucks opted to invalidate Zuykov’s trademark before court, which resulted in a protracted legal dispute substantially delaying Starbucks’s entry into the Russian market.

¹Trademarks are intellectual property instruments that protects the exclusivity of brands. Trademarks are territorial rights, that is, they have to be registered in each jurisdiction in which protection is sought to take effect.

²It may be possible for the brand owner to get the intellectual property office or a civil court to cancel the squatted trademark, but this is costly and may involve considerable delay and legal as well as commercial uncertainty. As a result, the brand owner may be willing to pay the squatter for abandoning, re-assigning, or licensing the trademark.
market. Other companies appear to have given in instead of risking litigation. In particular, Zuykov claims to have successfully squatted trademarks belonging to the German car manufacturer Audi.³

**Results.** The paper studies this phenomenon both from a theoretical and empirical perspective. On the theory side, the main result of the paper is to construct a simple model to show that trademark squatting can be rationalized as an equilibrium outcome. That is, we show that trademark squatting is not the outcome of mistakes made by brand owners (management failures). The model—a dynamic game in the spirit of the real option literature (Dixit and Pindyck, 1994)—shows instead that brand owners may rationally forgo the registration of a trademark even if a squatter might squat their brand with positive probability. Furthermore, our model provides several comparative static results with respect to key parameters. This theoretical results guide our empirical strategy.

On the empirical side, we assess the extent to which trademark squatting exists beyond the anecdotal level. For that, we develop a methodology to empirically identify squatters in the trademark register, based on applicant and filing characteristics, which we apply to the Chilean trademark register. Finally, we assess the impact of squatting on brand owners’ trademarking behavior. Our results show that our ‘squatter algorithm’ performs well at identifying squatters in the Chilean register. We find a substantial number of squatters and squatted trademarks—around 300 applications on average per year between 1991 and 2010. Since squatters pick specific (often valuable foreign) brands, the number is in fact substantial. The analysis of the impact of squatting reveals that brand owners react immediately upon noticing that they have been targeted by a squatter by filing more trademarks. This outcome shows that the presence of squatters may end up in an inefficiently early registration of trademarks which may be potentially squatted.

**Multistage Contests with Financial Constraints and Private Information**

**State.** This line of research resulted in (a) ‘Disruption costs, learning by doing, and technology adoption,’ published in the *International Journal of Industrial Organization*, Volume 41, July 2015, Pages 64-75.

http://dx.doi.org/10.1016/j.ijindorg.2015.03.010

³Another example is that of Californian car maker Tesla. Tesla has faced a trademark squatter in China, which substantially delayed its entry into the Chinese market and upon entry, initially forced the company to market its cars only under the brand’s English name because the squatter maintained ownership of the trademark on the Chinese name.
Description. To understand the outcomes described above, we organize our discussion in two parts. First, our ultimate goal is to construct a model in which two players, with private payoff information and financial constraints, compete in a sequence of contests. Let us think of the type of a player (she), at a particular date \( t \), as her social contribution (surplus) if she participates in the date \( t \) contest. Participating is however costly and the players’ budget is limited. In this context, our goal is to understand whether the player who starts with a ‘budget’ advantage will participate and win stage contests for which her date \( t \) type is (probabilistically) smaller than that of her rival. So, overall, the idea is that although a player may be more efficient than her rival, the initial ‘budget’ advantage might lead to intertemporal social distortions.

Although the paper is still a working document, some interesting results have been obtained in an extremely simple environment. (See below for details). More interesting, the ideas behind this project led to an intermediate paper that has been published. The framework of the latter retains some of the mean features of the former. More precisely, we study a dynamic model in which an efficient player – a player who can adopt a superior technology to that of her rival – ends up giving in her adoption project. As in the former paper one of the players has a budget advantage, in the latter, one of the players has an initial cost advantage due to presence of what we call disruption costs. (Formal details can be found in the published paper.) So, in a technical way, disruption costs act as a formal substitute for the budget advantage. However, tractability does not come for free: In this paper, we study a game of complete information; thus we eliminate the presence of differential information between the players.

Results. Let us start by describing the preliminary result of our dynamic model with asymmetric information. The result is obtained in the context of a simple two period model with a finite distribution of types. Up to now, the main economic insight is as follows. In the first date, the initial disadvantage player decides not to participate in the contest unless her realized type is sufficiently ‘high’. The reason for this behavior is simple: By restraining her participation, the player transfers her current money endowment to the next period with the hope of getting a better draw; i.e., a better realization of her type. Contrarily, the advantage player participates even when her type is smaller than that of her rival. Briefly said, the financially constrained player saves too much money for later opportunities. As a result, in the unique equilibrium the budget advantage player wins the first contest even when her type realization is smaller than that of her rival.

Concerning the second paper, the results are shortly said. As highlighted, we study
technology adoption in a dynamic model of price competition. Adoption involves disruption costs. Because of disruption costs, the adopting firm begins in a market disadvantage, which may persist if its rival captures the customers that the adopting firm needs to learn the technology. The prospect of future rents by the rival results in a failure to adopt socially efficient technologies.

Risky Investments and the Hold-up Problem

State. There is a preliminary paper which has not yet been submitted for publication.

Description Situations in which firms invest in relationship-specific assets with the fear of a hold-up behavior have received the attention of many researchers. The classic complete-information setup allows to study, for instance, the relation between an investing buyer and a seller with full bargaining power. Under these conditions, the appropriation by the seller of the surplus generated by the buyer’s investment ends up undermining the incentives to invest in the first place. In contrast to most of the literature, we study the hold-up problem where the buyer not only must incur in resources to increase the expected surplus of a given project but she can also choose among projects leading to alternative prospects that differ in their risk.

Results. To study these issues, we use the cannonical hold-up model in which a buyer chooses between alternative relationship-specific projects to increase the valuation (surplus) of an essential asset for the bilateral relation. Our innovation is to augment the game with a pre-investment stage in which the buyer can randomly modify his initially commonly known valuation for the asset. We show that the buyer’s optimal balance between surplus creation and getting information rents considerably ameliorates the inefficiencies associated to a potential hold-up.

Covert Networks and Antitrust Policy

State. The paper has been ‘Submitted’ for publication to the ‘Review of Network Economics’.

Description. In the economic literature, cartels are considered a monolithic entity. However, the internal organization of cartels is far from being trivial for their economic success. The design of internal (to the cartel) communication schemes for coordinating actions is a key task for the cartel’s success (in term of expected payoffs). Equally important, the communication structure of cartels must also be designed to cope with external threats (detection and punishment) coming from antitrust authorities. Shortly put, the internal organization of a cartel must balance
two conflicting aims: a coordination goal to boost market profits and a security goal to protect its members from detection and punishment. The paper studies, from a network perspective, the main trade-offs between internal efficiency and security aims in cartels.

**Results.** We examine the above tradeoffs both from a theoretical and empirical perspective. On the theory side, we assume that the design of a communication structure takes into account (a) how members of a cartel communicate with each other (i.e., personal talks, phone talks, etc.) (b) the frequency of such contacts (c) the position of those who exchange information in the hierarchal structure of the cartel’s members and (d) the matters to be deal with in each of these meetings. We condense these features into a simple model of affiliation networks. Guided by this theoretical scheme, we then characterize the actual communication structure for the Graphite Electrode (GE) cartel.

Available empirical information allows us to study the trade-off between internal efficiency and security. Our main preliminary result suggests that the overall level of communication between cartel’s members (as measured by a density index) is relatively ‘low’ compared with a benchmark of efficient communication. This finding indicates that the chosen communication structure of the GE cartel was mostly designed to cope with security aspects rather than with coordination issues.
COOPERACIÓN INTERNACIONAL

N° Proyecto: 1140582
Nombre Colaborador (a) Extranjero (a): FLAVIA ALEJANDRA ROLDAN
Afiliación Institucional Actual: UNIVERSIDAD ORT/ FACULTAD DE ADMINISTRACION Y CS. SOCIALES
Fechas de estadía Desde: 01/03/2016 Hasta: 05/03/2016

Describa las actividades realizadas y resultados obtenidos. Destaque su contribución al logro de los objetivos del proyecto. Si es pertinente, indique las publicaciones conjuntas generadas, haciendo referencia a lo informado en la etapa Productos. Agregue en la etapa anexos la información necesaria.

Durante la estadía de Flavia Roldán se elaboraron diferentes aspectos de carácter intermedio --teóricos y empíricos-- del producto Covert Networks and Antitrust Policy. Flavia Roldán es especialista en social networks por lo que su experiencia y conocimientos técnicos contribuyeron decisivamente a la obtención del paper "Covert Networks and Antitrust Policy" discutido en el informe final.

Flavia Roldán también realizó una visita la Universidad Alberto Hurtado (UAH) durante la cual se procedió a escribir la versión preliminar del paper antes citado. La estadía se extendió desde el día 17 Julio al 23 de Julio del año 2016.

N° Proyecto: 1140582
Nombre Colaborador (a) Extranjero (a): JOAQUIN COLEFF
Afiliación Institucional Actual: UNIVERSIDAD NACIONAL DE LA PLATA
Fechas de estadía Desde: 13/07/2015 Hasta: 19/07/2015

Describa las actividades realizadas y resultados obtenidos. Destaque su contribución al logro de los objetivos del proyecto. Si es pertinente, indique las publicaciones conjuntas generadas, haciendo referencia a lo informado en la etapa Productos. Agregue en la etapa anexos la información necesaria.

Durante la estadía de Joaquin Coleff se elaborará una versión preliminar del paper "Bargaining with endogenous asymmetric information'. Muchos de los resultados obtenidos están en directa relación al trabajo de tésis de doctorado del colaborador.

PRODUCTOS

ARTÍCULOS
Para trabajos en Prensa/ Aceptados/Enviados adjunte copia de carta de aceptación o de recepción.

N°: 1
Autor (a)(es/as): Carlos J. Pérez; Carlos J. Ponce.
Nombre Completo de la Revista: International Journal of Industrial Organization
Título (Idioma original): Disruption costs, learning by doing, and technology adoption
Indexación: WoS
ISSN:
Año: 2015
Vol.: 41
N°: N/A
Páginas: 64-75
Estado de la publicación a la fecha: Publicada
Otras Fuentes de financiamiento, si las hay:
Nr. : 2
Autor (a)(es/as) : Christian Helmers; Carsten Fink; Carlos Ponce
Nombre Completo de la Revista : International Journal of Industrial Organization
Título (Idioma original) : Trademark Squatters: Theory and Evidence from Chilek
Indexación : WoS
ISSN :
Año :
Vol. :
Nº :
Páginas :
Estado de la publicación a la fecha : Enviada
Otras Fuentes de financiamiento, si las hay :

Envía documento en papel : no
Archivo(s) Asociado(s) al artículo : IJIO.pdf

Nr. : 3
Autor (a)(es/as) : Flavia Roldán; Carlos Ponce
Nombre Completo de la Revista : Review of Network Economics
Título (Idioma original) : How does a cartel operate? Theory and Evidence from Graphite Electrode Cartel from a social perspective
Indexación : WoS
ISSN :
Año :
Vol. :
Nº :
Páginas :
Estado de la publicación a la fecha : Enviada
Otras Fuentes de financiamiento, si las hay :

Envía documento en papel : no
Archivo(s) Asociado(s) al artículo : Letter_IJIO.pdf

Squatting_paper.pdf
OTRAS PUBLICACIONES / PRODUCTOS

Sin información ingresada.

CONGRESOS

1
Carlos J. Pérez; Carlos J. Ponce.
Disruption costs, learning by doing, and technology adoption
LACEA-LAMES
BRASIL
Sao Paulo
20/11/2014
22/11/2014
LACEA-LAMES Sao Paulo
2014
n/a
n/a
si
D7._Programa_LACEA_.pdf

2
Christian Helmers; Carsten Fink; Carlos Ponce
Trademark Squatters: Theory and Evidence from Chile
LACEA-LAMES
BRASIL
SAO PAULO
20/11/2014
22/11/2014
D6._Carta_Invitacion_.pdf

LACEA_DPC.pdf
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| Nombre del Congreso: | LACEA-LAMES |
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| Ciudad: | Santa Cruz de la Sierra |
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**TESIS/MEMORIAS**

*Sin información ingresada.*

**ANEXOS**

| Nº: | 1 |
| Archivo Asociado: | Informe_de_difusion_a_la_sociedad.pdf |
A continuación se detallan los anexos físicos/papel que no se incluyen en el informe en formato PDF.

Aún no se ha realizado el informe de difusión. En un período máximo de 3 meses publicaré un informe de difusión en la Revista Observatorio Económico perteneciente al Departamento de Economía de la Universidad Alberto Hurtado. Cabe destacar que esta revista cumple perfectamente el objetivo buscado dado que se trata de difundir a la sociedad --otras universidades, sector público, difusión periodística, etc-- en forma simple y amplia los resultados obtenidos.