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Abstract
In a vertically related industry, we examine the downstream firms' incentives to invest in cost-reducing Research and Development (R&D), and to form a Research Joint Venture (RJV), under two alternative structures of input supply: exclusive vertical relations and a single supplier. In contrast to the "hold-up" argument, in which downstream firms invest non-cooperatively and spillovers are low, R&D investments are higher under a single supplier than under competing vertical chains. Downstream firms' incentives to form a RJV are also stronger in the former case than they are in the latter. We identify conditions under which an RJV is beneficial for society. Integrated innovation and competition policies are also discussed. © Southern Economic Association, 2014.

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