Coase’s Conjecture in Finite Horizon∗

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Abstract: In this paper Coase’s Conjecture is analyzed in a finite-horizon formulation. In addition to utility discounting models decreasing-willingness-to-pay models are analyzed. We find that in contrast to Coase’s Conjecture a monopolist may extract full monopoly profit in the finite-horizon problem under certain conditions; in fact, the monopolist does not have any reason to attract traders and waits until they come and trade. However, including utility discounting or decreasing-willingness-to-pay on the purchasers’ side the monopolist’s profit may dramatically decrease. The monopolist tries to clear trades as soon as possible, which makes him sacrifice a part of his one-shot monopoly profit to attract traders to buy.

Keywords: Coase’s conjecture, monopoly, discounting, decreasing willingness to pay.

JEL classification: C72, D42, G14, L11, L12.

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