Depending upon the facts, vertical contracts may increase, reduce or leave unchanged economic efficiency. On economic grounds, one view holds that vertical restraints result in distortions in consumption and in the allocation of resources. Vertical arrangements may be used as a device to deny market access to rivals and may even create monopolies. Firms in a vertical relationship can agree to terms and conditions that give them market power which can be used to extract higher profits. In this view, vertical restraints should be prohibited because they reduce economic welfare.

The counter view, also based on economic grounds, holds that vertical contracts can lead to efficient links among firms at various stages, which may lower production costs and improved product quality. Economic efficiency and welfare, in this case, will be enhanced and, consequently, vertical restraints should not be illegal.

In our example of automobiles in section 1, the manufacturer has contracts with its subcontractors and dealers. These contracts contain clauses that may restrain the behaviour of individual suppliers and retailers. Should these contracts be *per se* illegal? Vertical contracts may have restrained individuals, but they may promote competition rather than restrain it.

The crucial question here is understanding the true nature of the relationship between Ford and its suppliers/retailers. Our discussion suggests that the firm (Ford) may or may not impose inefficiencies or deny market access to potential entrants. In practice, competition policy concerns turn on whether we can isolate those situations in which we see economic harm due to vertical restraints.

Conceptually, as we said above, Ford could produce all the parts and services to make an automobile in-house. Integrated manufacturing would permit Ford to get around competition policy concerns. Yet, a vertically integrated Ford may not be as efficient a producer. Thus, non ownership-based vertical arrangements that promote efficiency should not be automatically prohibited.

The effect on *intra*brand competition versus *inter*brand competition of a given vertical practice is one of the fundamental issues in assessing the overall desirability of the arrangement from society's point of view.

Competition policy analysts often examine whether a given business arrangement is pro- or anti-competitive and, consequently, whether a given practice should be banned or not. Some competition policy analysts may use or emphasize the effects on consumer surplus alone in evaluating economic efficiency of a business practice. However, from society's