

Published by **De Gruyter** | April 1, 2005

Completing Contracts Ex Post: How Car Manufacturers Manage Car Dealers

Benito Arruñada, Luis Garicano and Luis Vázquez

From the journal [Review of Law & Economics](#)

<https://doi.org/10.2202/1555-5879.1002>

 Citations 22

This article illustrates how contracts are completed ex post in practice and, in so doing, indirectly suggests what the real function of contracts may be. Our evidence comes from the contracts between automobile manufacturers and their dealers in 23 dealership networks in Spain. Franchising dominates automobile distribution because of the need to decentralize pricing and control of service decisions. It motivates local managers to undertake these activities at minimum cost for the manufacturer. However, it creates incentive conflicts, both between manufacturers and dealers and among dealers themselves, concerning the level of sales and service provided. It also holds potential for expropriation of specific investments. Contracts deal with these conflicts by restricting dealers' decision rights and granting manufacturers extensive completion, monitoring and enforcement powers. The main mechanism that may prevent abuse of these powers is the manufacturers' reputational capital.

Published Online: 2005-4-1

©2011 Walter de Gruyter GmbH & Co. KG, Berlin/Boston

From the journal



Review of Law & Economics

Volume 1 Issue 1

Articles in the same Issue

Article

Brandeis and Holmes, Business and Economics, Then and Now

Legal Durability

Featuring the Three Tenors in La Triviata

A Response to Professor Goldberg: An Anticompetitive Restraint by Any Other Name . . .

A Simple Theory of Increasing Penalties for Repeat Offenders

The Confused U.S. Framework for Foreign-Bank Insolvency: An Open Research Agenda

Cross-Listing and Regulatory Competition

Completing Contracts Ex Post: How Car Manufacturers Manage Car Dealers

