Advance-Purchase Financing of Projects with Few Buyers

I investigate a simple model of advance-purchase contracts as a mode of financing costly projects. The analysis can easily be reinterpreted as a model of monopolistic provision of excludable public goods under private information. A monopolist has to meet some capital requirement in order to start production and sell the related good to a limited number of potential buyers who are privately informed about their willingness to pay. I find that advance-purchase arrangements allow to finance more costly projects than traditional funding sources. The monopolist is able to use advance-purchase surcharges as a price discrimination device. He will prefer advance-purchase financing over traditional funding if the capital requirement is sufficiently large. However, the discriminatory power is limited by the problem of free-riding which aggravates for an increasing number of potential buyers.

**Keywords**: advance-purchase, pre-ordering, price discrimination, excludable public goods, monopolistic provision, private information

**JEL classification**: D42, G32, H41, I12, L11, L12,