

- Strategic Outsourcing and Quality Choice in a Vertically Differentiated Duopoly
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Summary :

This paper analyzes how firms' choice of two types of organizational production mode, vertical integration and outsourcing, will influence their quality choice in a vertically differentiated duopoly model. We consider strategic behaviour between rivalrous firms competing with their choices of quality and organizational production mode. We explore how this strategic behaviour can influence their asymmetric choices leading to intra-industry heterogeneity, and show that asymmetric production modes, where one firm outsources while the other produces in-house, are accepted as subgame perfect equilibrium outcomes. Furthermore, we study how much price competition differs from quantity competition in the firms' choices of quality and organizational production mode.