

CENTRE FOR APPLIED FINANCE AND ECONOMICS (CAFE)

Seminar

Vertical Fragmentation and International Sourcing

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Abstract: In a North-South model of international trade, we analyse the ways firms procure their inputs in the presence of relationship-specific investments and incomplete contracts. There are heterogeneous final-good producers that are located in the North and compete in monopolistic competition. Production entails a well-defined sequence of highly complementary stages such that a failure in any one of them destroys the whole project. In this environment, we first characterize an equilibrium in which based on their productivity, firms decide where to buy their inputs in each production stage. While doing so, they also choose their ownership structure in order to alleviate the hold-up problem they face due to contract incompleteness. Next, we examine how within sectoral heterogeneity and variations in industry characteristics affect the relative prevalence of firms that choose to (i) procure inputs from different locations, and (ii) form different organizational structures.

Biography: Professor Karabay is primarily a trade theorist but also interested in other applied theory work. He is also a researcher at CERGE-EI, Prague. Previously, he was a Senior Lecturer at the University of Auckland and before that an Economist at the Central Bank of the Republic of Turkey. He received his PhD from the University of Virginia in 2006.

Profile: <https://www.rmit.edu.au/contact/staff-contacts/academic-staff/k/karabay-associate-professor-bilgehan>

Date: Wednesday 25 October 2017
Time: 12:00pm – 1:30pm
Location: WL2-47 (Level 2, Room 47, Way Lee Building) City West [[campus map](#)]

For any further information and enquiries please contact
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