

**Stony Brook University
The Graduate School**

Doctoral Defense Announcement

Abstract

Essays on Strategic Industrial Competition

By

Yutian Chen

My dissertation focuses on strategic outsourcing and contains three parts: Part I identifies the previously unstudied function of strategic sourcing in deterring entry. It shows that an incumbent may source its key input to a potential entrant with the sole purpose of blocking its future entry. An entry barrier is created because, through sourcing to the entrant, the incumbent can partly commit to a future quantity, therefore imposes a second mover's disadvantage on the entrant in the event that it actually carries out entry. In addition, there is a collusive effect. Both the incumbent and the entrant are better off relative to what would be the case if the latter attempted entry: through the sourcing transaction, they share the surplus generated from a more-concentrated final-product market. Although the market is less competitive when entry is deterred, the social welfare is generally higher. In some circumstances, even the consumer's welfare increases.

Part II finds that intermediate goods can be sourced to firms on the "outside" (that is, firms that do not compete in the final product market), even when there are no economies of scale or cost advantages for these firms. What drives the phenomenon is that if "inside" firms were to accept such orders, they would incur the disadvantage of Stackelberg followers in the ensuing competition to sell the final product. Thus they have an incentive to quote high provider prices to ward off future competitors, driving the latter to source outside.

Part III incorporates economies of scale into the work described above in Part II. In this scenario, when a final-product producer sources to an "insider" who produces under scale economies, there are two strategic effects intermingling with each other: an Stackelberg leader's advantage, together with a future cost disadvantage due to the economies of scale. As long as the "outsider's" cost is not significantly higher than the "insider's", (i) the final-product producer sources to "outsider's" in any SPNE (subgame perfect Nash equilibrium); (ii) when economies of scale are not too small, "insider's" also source to "outsider's" in any SPNE.

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