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ORIGINAL ARTICLE

Are input prices irrelevant for make-or-buy decisions?

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Abstract The 1996 Telecommunications Act requires incumbent providers to lease
network inputs to rivals at cr-228mseirices aie2ord(prinuts)-2oo1t5easT*3 0 TD -0.00020.3t8.1(E

show that this strategic effect does not dominate the entrant's make-or-buy decision for all values of w.

4 Bertrand vertical differentiation model

The following is a simple quality differentiation model, where we assume that the incumbent produces the high quality good and the entrant produces a lower quality substitute good. In similar fashion to the standard Hotelling framework, we assume that a consumer requires only one unit of the product. A consumer's indirect utility for the high quality good is given by, $V_h = \theta\lambda_h - p_h$, while her indirect utility for the low f t224.7([(log223.8(is67t2248(g54.9(v)75.6(e30.2(nog223b6(e30y3(,)]TJ /F4 1 T1.7377866 0

These results appear to be consistent with a gro

$$\frac{2p_l\lambda_h - p_h\lambda_l - w\lambda_h - \lambda_h c_d^E}{(\lambda_l - \lambda_h)\lambda_l} = 0\,. \tag{A4}$$

Solving (A3) and (A4

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