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International Journal of Industrial Organization

Volume 21, Issue 7, September 2003, Pages 1021-1042

Starting small in an unfamiliar environment

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[https://doi.org/10.1016/S0167-7187\(03\)00018-3](https://doi.org/10.1016/S0167-7187(03)00018-3)

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Abstract

We design a simple model of a developed country buyer's search for a less developed country supplier and the subsequent relationship between the two parties. Matched firms can start small with a trial order to gain information about the ability of the LDC supplier to successfully fill a large order. We show that the propensity for the buyer to start small increases with the cost of search for a new supplier and decreases with the probability that the current or new supplier can fulfill the large order successfully after training. We provide supportive empirical evidence for these and other results.

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JEL classification

L24; D83

Keywords

Outsourcing; Search; Technology Transfer; Uncertainty

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