Multi-Product Firms at Home and Away: Cost- versus Quality-based Competence

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Abstract

We develop a new model of multi-product firms which invest to improve both the quality of their individual products and of their brand. Because of flexible manufacturing, products closer to firms’ core competence have lower costs, so they produce more of them, and also have higher incentives to invest in their quality. These two effects have opposite implications for the profile of prices. Mexican data provide robust confirmation of the model’s key prediction: firms in differentiated-good sectors exhibit quality-based competence (prices fall with distance from core competence), but export sales of firms in non-differentiated-good sectors exhibit the opposite.

(with Leonardo Iacovone , Beata Javorcik , J Peter Neary)