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Title	A Theory of Intermediation in Supply Chains Based on Inventory Control

Author(s)	Zhan QU[(a)] Horst RAFF[(b),(c),(d)] Nicolas SCHMITT[(d),(e),(f)]
Affiliation	(a) Department of Economics, Technical University Dresden (b) Department of Economics, Kiel University (c) Kiel Institute for the World Economy (d) CESifo (e) Department of Economics, Simon Fraser University (f) Hitotsubashi Institute for Advanced Study, Hitotsubashi University

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Abstract	The paper shows that taking inventory control out of the hands of retailers and assigning it to an intermediary increases the value of a supply chain when demand volatility is high. This is because an intermediary can help solve two incentive problems associated with retailers' inventory control and thereby improve the intertemporal allocation of inventory. Adding an intermediary as a new link in a supply chain is also shown to reduce total inventory, to make shipments from the manufacturer less frequent and more variable in size, as well as to reduce social welfare.

Keywords	intermediation, inventory, demand volatility, supply chain
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