

Abstract: Many complex final goods require a large number of inputs to come together in a timely and efficient manner for production to be successful. Notable examples include lithography machines used to make semiconductors, airplanes, and lasers. We build a model to analyze this coordination problem and show how coordination can be achieved. There is a manufacturer endowed with capital who needs an input from each of  $n$  suppliers to produce a final good. The manufacturer may pay a markup to overcome supplier reluctance and achieve coordination. Coordination can also be achieved through integration, but integration inflates costs due to a lack of congruence between manufacturer and supplier. We model integration and the associated cost inflation along the lines of Aghion-Tirole (1997). We derive sharp predictions about firm structure and apply our model to a number of applications including International Trade and Industry Policy.