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Optimal Production, Pricing, and Substitution Policies in Continuous Review Production-Inventory Systems

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## Highlights

- We study a continuous-review production-inventory system with two product types.
- We derive the optimal production, pricing, and substitution policies.
- The optimal production policy is a state-dependent base-stock policy.
- The optimal substitution policy is a rationing policy, with the rationing level dependent on the total inventory level.
- Numerical experiments demonstrate the benefit of substitution and dynamic pricing.

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