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Buy Now and Price Later: Supply Contracts with Time-Consistent Mean-Variance Financial Hedging

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Highlights

- Flexible price contract linked to the future spot price of commodity is formulated.
- Manufacturer and retailer can be *win-win* under flexible price contract.
- Flexible price contract with financial hedging is formulated to mitigate the risk-averse retailer's exposure to commodity price risk.
- Closed-form time-consistent financial hedging policy is derived.

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