Markup and Price Dynamics: Linking Micro to Macro

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Globalization and the Fall of Markups

Michał Gradzewicz and Jakub Mućk

Market Power in Input Markets: Theory and Evidence from French Manufacturing

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De Loecker, Fuss, and Van Biesebroeck

- Paper applies De Loecker and Eeckhout Methodology+ to Belgian data (census)
- Intriguing and puzzling pattern in aggregate markup trends
  - Markup trajectory in census of Belgian firms is opposite that of listed firms only
    - Census: rise until 1995, then level
    - Worldscope: level until 2000, then rises
- Explore variations within and across sectors as well as role of reallocation in driving aggregate patterns

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- One lesson of paper: Heterogeneity in everything, including markups
  - Right tail runs away
    - Except maybe for trade sector—heterogeneity across industries too!
- Multiple new things in paper but one of the more different new things is goods and service inputs broken out
  - Service inputs clearly have rising cost share
    - What is the role of quasi-fixed factors in services?
    - Intangibles?
    - Look at footnote 9—clear fixed elements there (paper is aware)
  - Implied markup level and trajectory from treating service inputs as variable are clearly different

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- Miscellaneous issues
  - Reporting unit in sample unclear; not exactly firm nor establishment
    - How would a firm apportion its fixed costs in this system?
    - Raises a more general issue of defining and treating fixed costs
  - Decomposition results are nice. Very interesting that reallocation in MFG and trade is away from high-markup firms
    - Consistent with many theories but kind of goes against the grain of a lot of the stories out there

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- Broader issues: markup estimation methods generally rely on (though not here so much) factors' output elasticities from a PF
  - Just need to be mindful that when outputs and inputs are measured as P x Q rather than Q, extra issues need to be dealt with
  - It is not just that residual is now demand and TFP; the elasticity of sales w.r.t. even actual Q of inputs generally has both PF and demand parameters in it

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- Monopsony is a HOT topic
  - Nice to see work combine market power in both product and factor markets
  - Interesting that most of this new monopsony attention has been given to labor, but this paper is looking at intermediate inputs (from foreign and domestic suppliers separately)

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- Generalized relationship between output elasticities and revenue shares now adds monopsony "markup" to product market markup
  - Demonstrates the tight connection between the two; they both create DWL in the same sort of way
    - Units of the good that consumers would be willing to pay more than costs for are not produced
  - Is product market power "leaking into" the results of this paper?
  - Is monopsony power in factor markets "leaking into" markup estimation papers?
- Of course all of the measurement issues that arise with the product market markup method (e.g., are there fixed costs in the reported expenditures on variable costs) matter here too

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- Results: HUGE monopsony power
  - Ratios of estimated marginal products to expenditures are enormous, especially so for foreign suppliers
  - Paper interprets this foreign/domestic difference as reflecting more atomistic nature of foreign suppliers
    - Do we know they are more atomistic?
    - It isn't size per se that matters for monopsony; it is ability/willingness of suppliers to substitute to other buyers
  - General lesson: monopsony need not necessarily apply to the "low type" (small, indistinguishable) sellers; could be that the high types have more limited scope for substitution

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- I really like the effort to take the micro estimates of monopsony power and plug them into a macro model to see how they add up
  - Part of macro effect is a new type of productivity loss through misallocation that I do not think the literature has addressed yet
  - Input market frictions (though I wouldn't say monopsony per se) have received some implicit attention in misallocation, but little explicit modeling