Increasing Markups and the Concentration of Market Shares

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What this paper does

- Develops a new method to aggregate markups
  - rise in markups (7% to 20%) smaller than initially suggested (21% to 61% in De Loecker et al 2020).
  - largest firms have average markups.
  - market shares shifting towards high-markup firms
- Intuition from model:
  - Firms initially reduce markups to attract new customers but later raise them $\Rightarrow$ markups and sales positively correlated over life cycle
  - Most productive firms benefit more than proportionally
- Decline in entry rates and changes in technology of customer accumulation best explain patterns

My comments on the empirics - 1

- The main innovation is to use the harmonic mean
  - By construction, the harmonic mean returns the lowest value for a series, while arithmetic mean returns highest
  - There should be clearer discussion on why the harmonic mean should be used
- The innovation should ideally come only from your new aggregation
  - Why not measure capital stock simply with PPEGT instead of using the perpetual inventory method?
  - Why not use variable inputs in your control function rather than investment?

My comments on the empirics - 2

- The main proposition shows how to aggregate firm-level markups to the industry markup.
- But how do you aggregate across industries?
- Can you provide the following decompositions:
    - within- vs. between firms in an industry
    - within- vs. between industries in aggregate

My comments on the theory - 1

- The model and empirical findings do not seem fully consistent
  - if markups and sales are positively correlated over the life cycle of firms, then within-firm increases in markups should explain more of the aggregate rise
- In the model, when do firms start raising their markups? Is there an inflection point?
- Firms draw a "habit stock" alongside productivity. Markups and market shares increase in both. Can you test in the data which one is more important?

My comments on the theory - 2

- The model does not seem to capture market concentration from the data (see Table 3, calibrated moments).
- How does the model capture firm entry and exit? Does the baseline calibration capture current business dynamics?
- If firms are heterogeneous in an industry, why define industry markup by a representative firm?
- CES preferences to aggregate industry output: this assumes monopolistic competition with constant markups.

Good luck with the paper!

THANK YOU!