

DISCUSSION OF:
HOW COSTLY ARE MARKUPS?

BY CHRIS EDMOND, VIRGILIU MIDRIGAN, AND DANIEL XU

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September 5, 2019

MOTIVATION

Only one take-away: this is a beautiful and influential paper. Why?

1. Analyze welfare cost of market power in macro economy
 2. Bring market power out of partial equilibrium (breakfast cereal) into general equilibrium/macro
 3. Can decompose sources of (in)efficiency
- Need more research along these lines!

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Some remarks to guide the discussion for future research: “nobody’s perfect”

1. Model assumptions
2. How model fits data
3. What we learn from this model

I. REMARKS ABOUT THE MODEL

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- We need simple models, that is why we love *monopolistic competition*
- BUT is it the appropriate framework to study the rise in markups?
 1. Markups are virtually identical (only difference from productivity): counterfactual
 2. Profits are zero: counterfactual
 3. Less competition from decrease # varieties: evidence?
 4. Zero passthrough \Rightarrow Kimball: but by assumption, no economic mechanism

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- \rightarrow Need **endogenous** markups, determined by # competitors (not perfect competition)

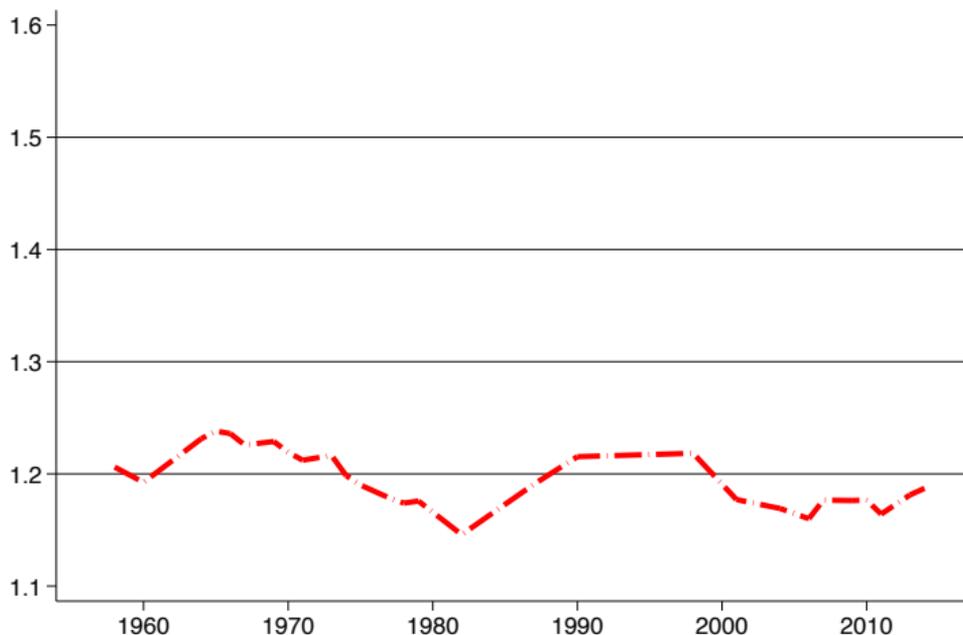
II. FACTS ABOUT MARKET POWER

1. MARKUP HETEROGENEITY

1. Wide heterogeneity in distribution of markups
2. Increase only for a few firms
3. Reallocation towards superstar firms: 2/3 of increase

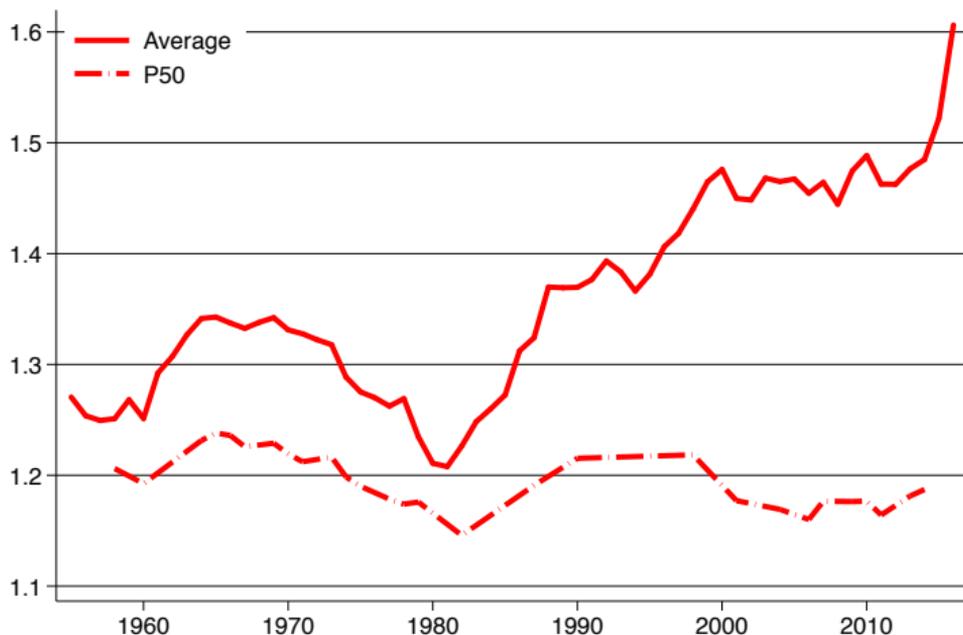
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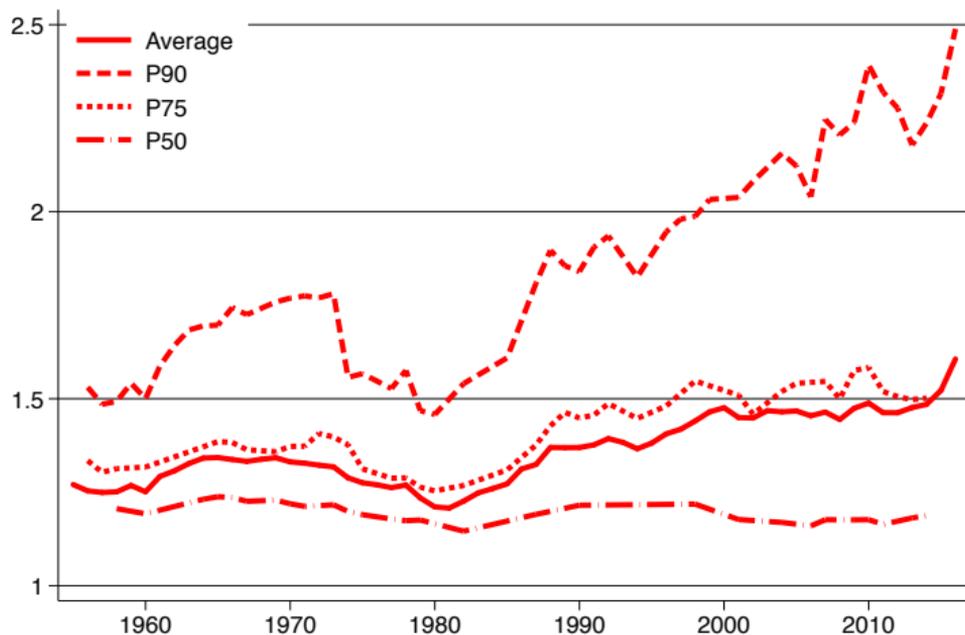
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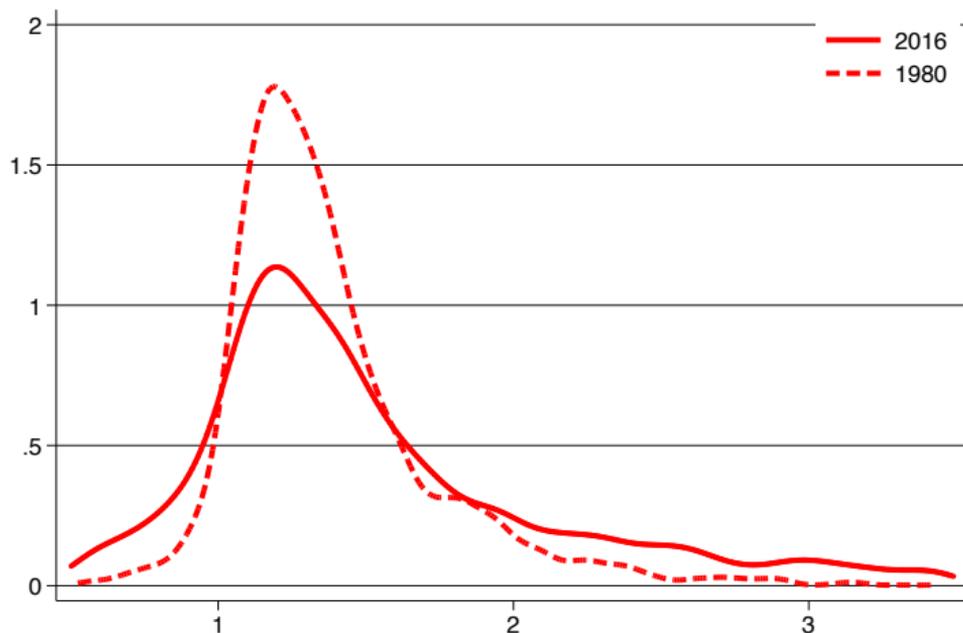
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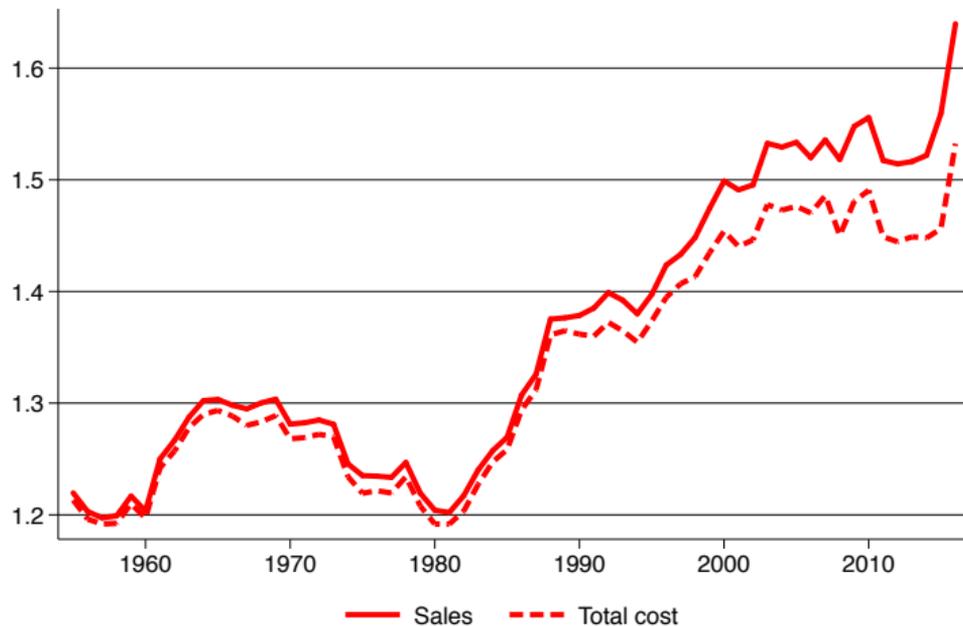


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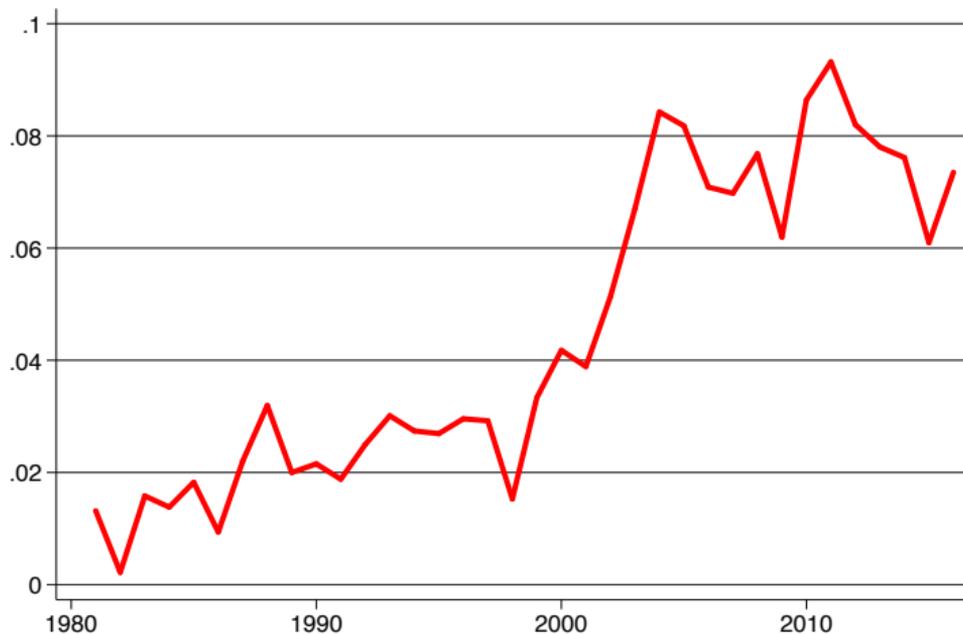
⇒ The model generates virtually no markup heterogeneity; and hence no reallocation
See also Autor e.a. (2017) and Baqaee-Farhi (2018)

2. WEIGHTING MATTERS: INPUT WEIGHT



- What is the input weight? Need a bundle of inputs
- With homogeneous markups, counterfactual predictions:
 1. input weighted average = sales weighted average
 2. Reallocation is zero
- With appropriate markup heterogeneity in model, can calibrate **both** input or output weight

3. SHARP RISE IN PROFITS: +7-8 PPT



- Profits from 1% of Sales in 1980 to 7% in 2016 (share of GDP: from 2% to 15%)
- Zero profits (and monopolistic competition) is counterfactual

III. ECONOMIC MECHANISM: WHAT DO WE LEARN?

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⇒ Amazon is a lot more efficient but also exerts market power
 2. Large GE effect on Wages (NOT monopsony power!): wages are fixed in EMX
 3. EMX focus on current *level* of markups; not the *sharp change* over time
⇒ Net welfare effect negative and large: both technological change & market structure matter

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