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

$\rightarrow$ 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

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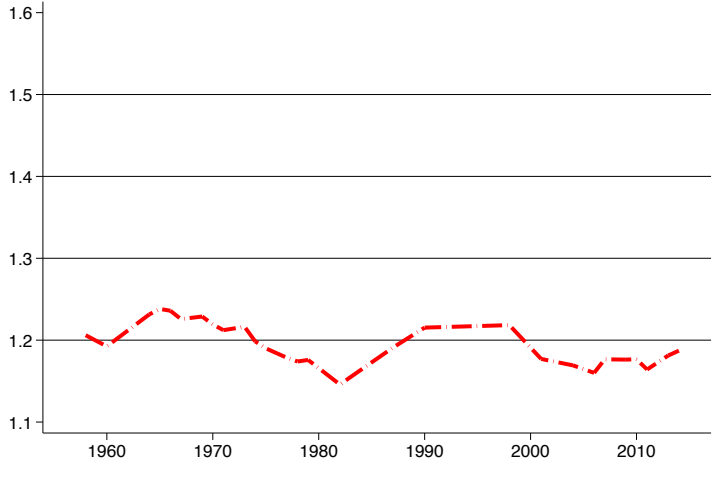

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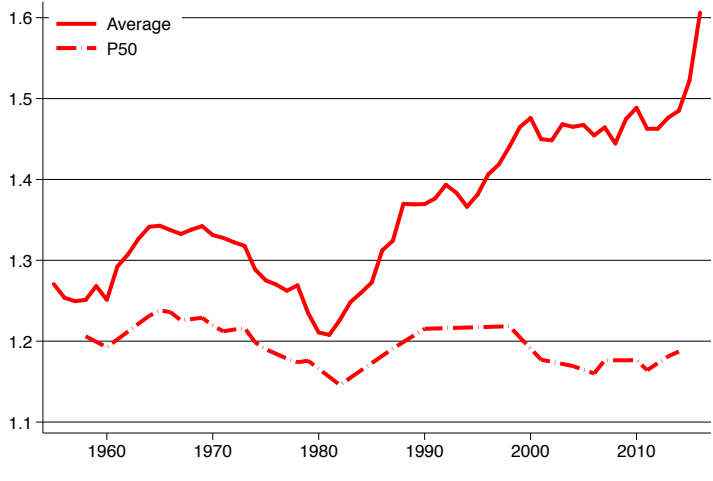

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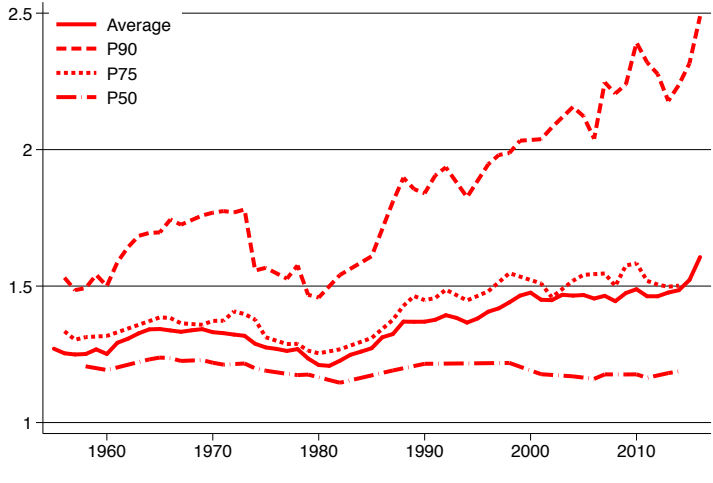

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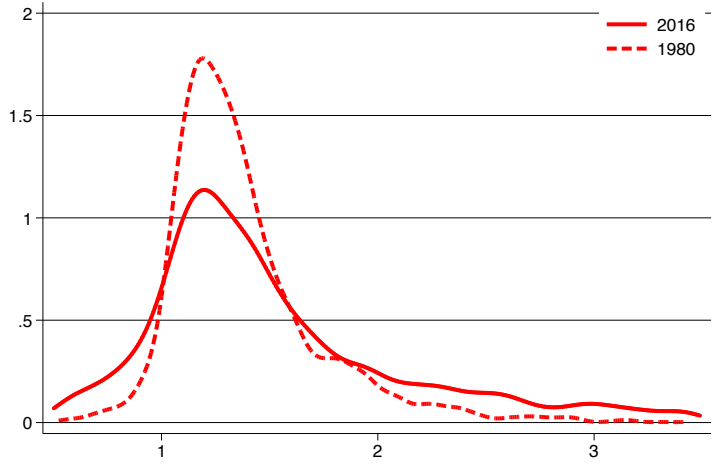

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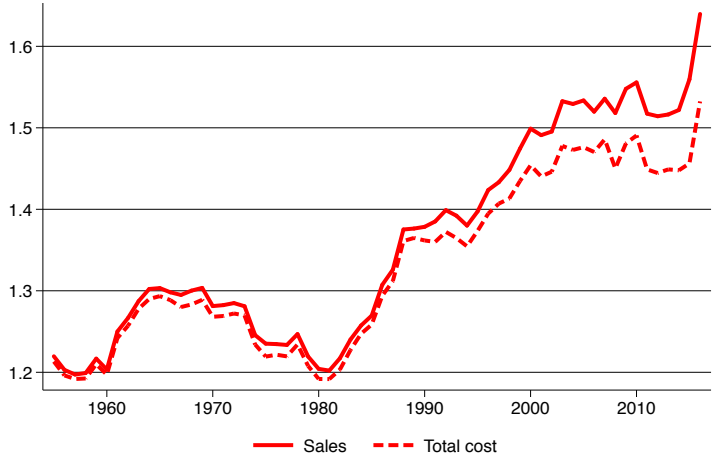
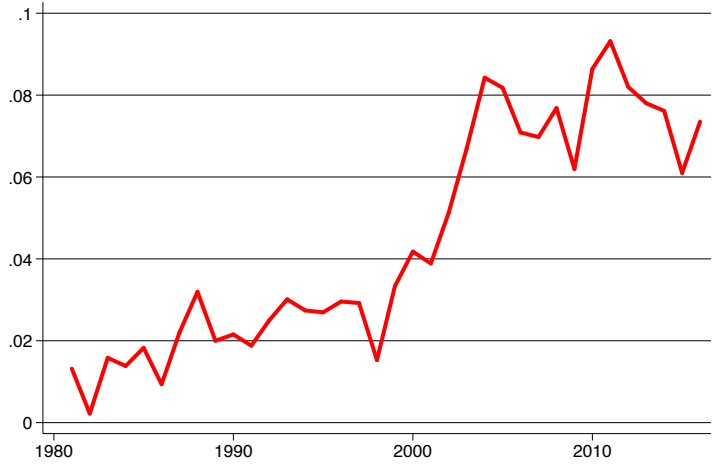
$\Rightarrow$ The model generates virtually no markup heterogeneity; and hence no reallocation
See also Autor e.a. (2017) and Baqaee-Farhi (2018)

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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     $\Rightarrow$ 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
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