

Firm-Product Markups in Chilean Manufacturing

Andrea Lamorgese (Bank of Italy)

Andrea Linarello (Bank of Italy)

Frederic Warzynski (Aarhus University)

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Abstract

In this paper, we use detailed information about firms' product portfolio to study the determinants of markups at the firm-product level in Chilean manufacturing over the period 2001-2007. The dataset provides information about the value and quantity produced by the firm, as well as the amount of exports. One additional and unique characteristic of our dataset is that it provides a firm-product level measure of the unit average cost that the firm incurs for each specific product it makes. We use this information to compute a firm-product level measure of the margin that a firm can generate. Not surprisingly, we find that, on average, larger and more efficient firms have lower average costs, but also charge lower prices and have higher margins. Firms also have higher margins when they export their product, although they do not necessarily charge higher prices. Once we distinguish between differentiated and homogeneous products, we find that more efficient firms have higher prices and also higher marginal costs when there is scope for differentiation. This suggests that more efficient firms produce higher quality goods. Our findings are in line with previous results using Colombian data.