

Bottom-Up Markup Fluctuations

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- Lingering disagreement on “Markup Cyclicalities”
 - Is this the correlation with firm/sector/aggregate output?
 - Pro/counter cyclical markup depending on the measurement/specification.
- Difficulties for the traditional (Monop. Comp./Representative (almost) Firm/Sticky Prices) model to rationalize these disagreements

This Paper: Bottom-Up

- Measurement of markup (data for France):
 - Firm-level balance-sheet and income statement data
 - Census data: aggregation from the bottom-up to the sector and aggregate level

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- “Markup Cyclicalities”
 - Run specification in the literature on the Bottom-up aggregated data.
- Propose a model that qualitatively and quantitatively rationalize these disagreements:
 - Differentiated Cournot competition
 - Heterogeneous firms with idiosyncratic productivity shocks only
 - Flex prices

Contributions

● Close-form structural elasticities

- Impact of firm-level shocks on firms, its competitors, firms in other sectors, sectors and aggregates
- Only structural notion of markup cyclicity is at the firm-level: firm markup increases with firm market share.
- Otherwise, signing markup cyclicity depends on:
 - the level of aggregation
 - the origins of shocks
 - market structure within and across all industries.

Contributions

2 Quantification at scale

- Calibrated to French firm census (1994-2016)
- Cournot, 500K firms, 570 sectors, firm-level idiosyncratic shocks only
- Are aggregate/sector-level markups driven by granular shocks?

Contributions

⑤ Model meets data

- Firm markups and firm market shares
- Heterogeneity in firm-level markup cyclicalities
- Sector markup cyclicalities
- Aggregate markup cyclicalities

Related Literature

- Market Power in Macro
 - Cycles: Rotemberg & Woodford (1992), Atkeson & Burstein (2008), Grassi (2017), Mongey (2017), Werning (2018)
 - Trends: De Loecker & Eeckhout (2017) and its critics, Edmond, Midrigan and Xu (2015, 2018), Baqaee & Farhi (2018), Eggertsson, Robbins, Wold (2018)
- Markup Cyclicalities in the Data
 - Hong (2018), Nekarda and Ramey (2013), Bils, Klenow, Malin (2018)
- Micro-Origins of Aggregate Outcomes:
 - Carvalho (2010), Foerster, Sarte and Watson (2011), Gabaix (2011), Acemoglu et al (2012), Carvalho & Grassi (forthcoming), Grassi (2017), Itshkoki & Gaubert (2018)

Roadmap

- 1 Model
 - Preferences, Technology and Market Structure
 - Equilibrium
- 2 Structural Elasticities
 - Approximation
 - Elasticities
- 3 Data, Estimation and Calibration
- 4 Model meets Data
 - Inspecting the Mechanism
 - Markup Cyclicity
- 5 Conclusion