

Micro Data for Macro Models

Topic 5: Trends in Concentration, Competition, and Markups

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February 11th, 2019

Overview of Topic 5

1. Potentially related trends since 1980

- Aggregate factor shares
- Composition of firms
- Market power?

2. Possible explanation of those trends

- Market power and markups (De Locker, Eeckhout, and Unger 2018)
- “Superstar firms” (Kehrig and Vincent 2018)

Overview of Topic 5

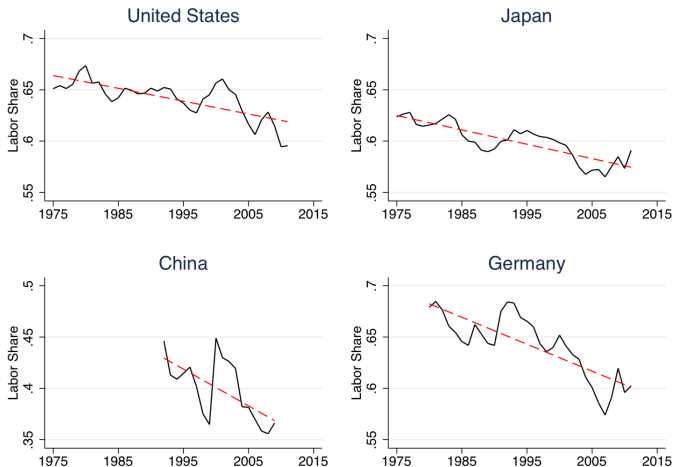
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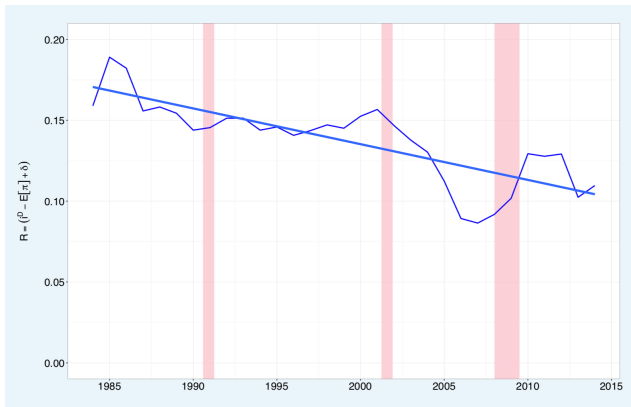
Global Decline in the Labor Share $\frac{W_t L_t}{Y_t}$



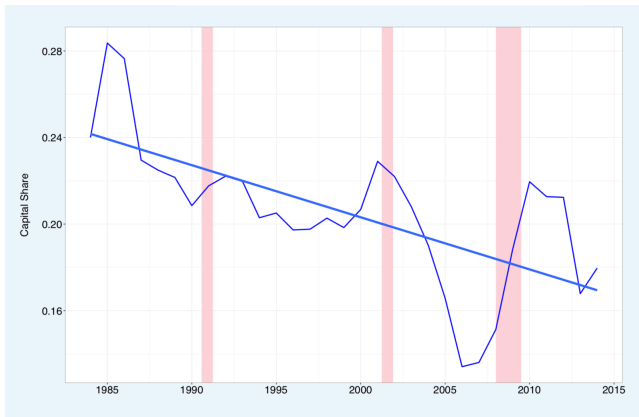
Source: Karabarbounis and Neiman (2014)

Capital Share vs. Profit Share? $1 = \frac{w_t L_t}{Y_t} + \frac{r_t K_t}{Y_t} + \frac{\pi_t}{Y_t}$

- Split between capital and profit share depends on **user cost of capital**
- Barakai (2017) argues that aggregate user cost has been falling

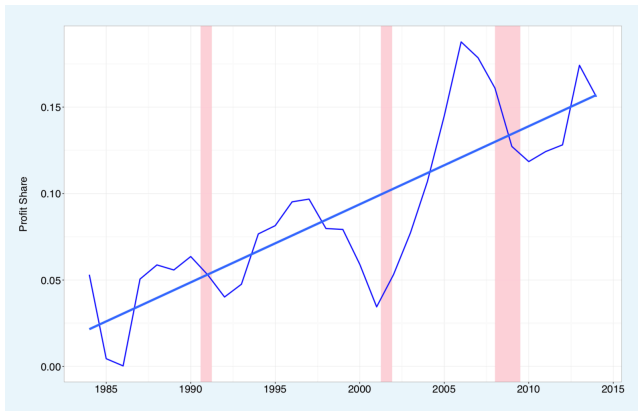


Capital Share Falling



$$1 = \frac{w_t L_t}{Y_t} + \frac{r_t K_t}{Y_t} + \frac{\Pi_t}{Y_t}$$

Profit Share Rising



$$1 = \frac{w_t L_t}{Y_t} + \frac{r_t K_t}{Y_t} + \frac{\Pi_t}{Y_t}$$

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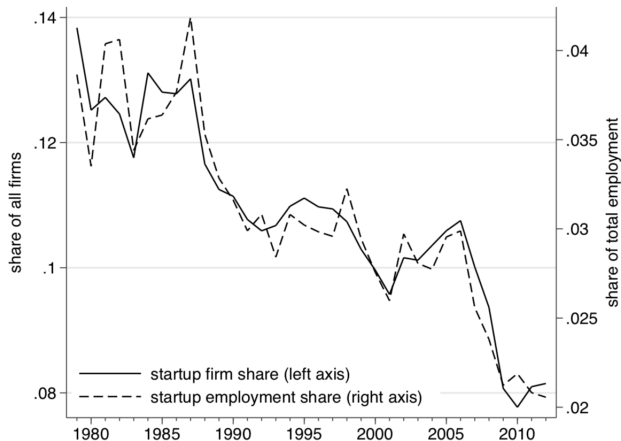
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- Market power and investment (Gutierrez and Phillipon 2017)
- Superstar firms (Autor et al. 2017)

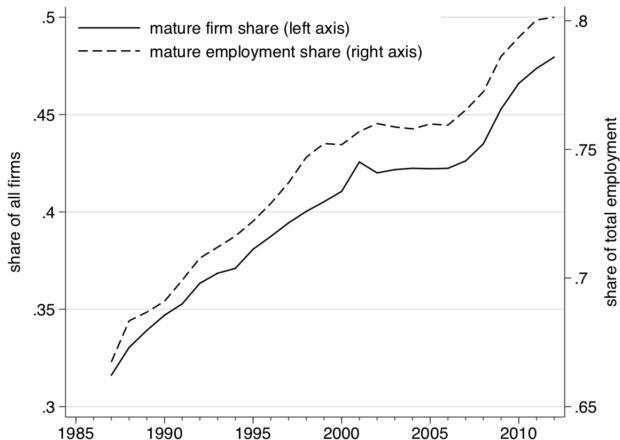
Entry Rate Falling



Source: Pugsley and Sahin (2015)

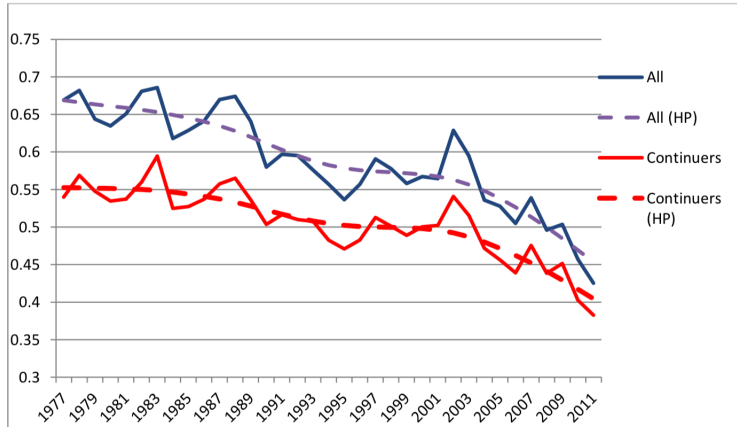
Firms are Aging

- Firm dynamics constant \implies average age increasing



Dynamism Falling

Figure 2: 90-10 Gap in Firm Growth Rates (Employment-Weighted Distribution)



Source: Decker, Haltiwanger, Jarmin, and Miranda (2014)

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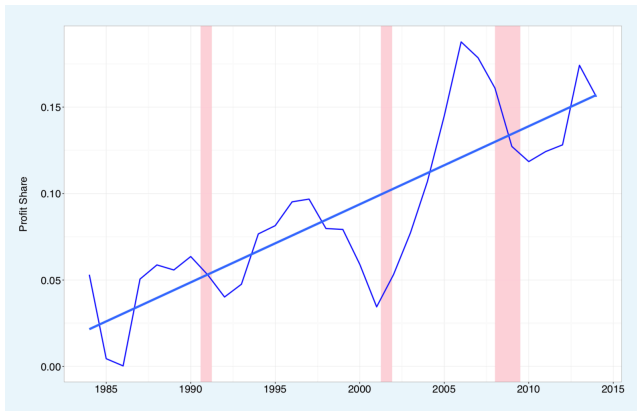
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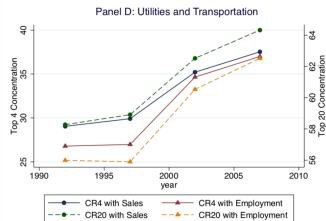
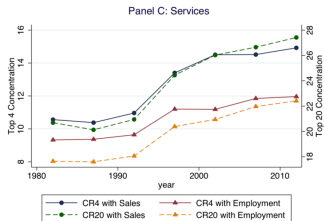
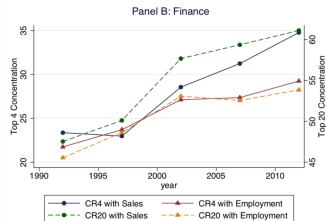
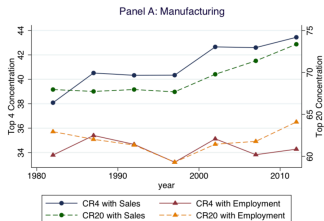
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Profit Share Rising



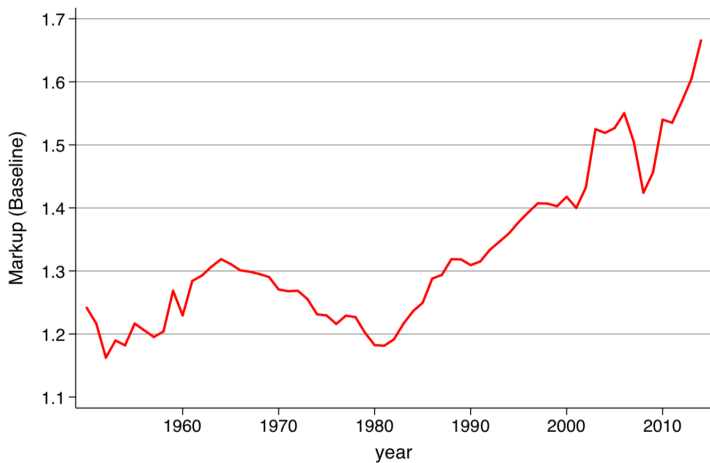
$$1 = \frac{w_t L_t}{Y_t} + \frac{r_t K_t}{Y_t} + \frac{\Pi_t}{Y_t}$$

Concentration Rising



Source: Autor et al. (2017)

Markups Rising?



Source: De Loecker and Eeckhout (2017)

Summary of Aggregate Trends

1. **Aggregate factor shares**

- Labor share falling
- Capital share potentially falling
- Profit share potentially rising

2. **Composition of firms**

- Entry rates falling
- Average age increasing
- Heterogeneity in growth rates falling

3. **Market power?**

- Concentration rising
- Some evidence that markups rising

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