General Discussion of ‘Competition, Markups, and Inflation: Evidence from Australian Firm-level Data’

Participants began by discussing how firms’ pricing behaviour was likely to change over business cycles. There was evidence from some earlier literature that firms’ ability to increase mark-ups in response to cost shocks varied in high and low inflation environments; for example, in high inflation environments, households’ preference for substituting cheaper goods might constrain firms’ ability to raise mark-ups more than when inflation was low. Similarly, it was likely to be difficult for firms to engage in collusive price setting when general inflation was higher because the dispersion of price changes across the economy was also likely to be higher. It was noted that it would be beneficial to study firms’ pricing behaviour using models that could accommodate changes in that behaviour over time in response to the evolution of the macroeconomy.

The discussion turned to data and measurement considerations in studying pricing behaviour. One participant noted that firms’ mark-ups over production costs have historically been difficult to measure empirically, due to a lack of direct microdata on firms’ actual costs and prices. Another participant noted that price behaviour models grounded in economic theory conceived of mark-ups as a wedge on top of marginal costs, where the latter were also difficult to estimate. It was noted that the growing prevalence of microdata that directly linked firms’ costs, prices and other business characteristics would facilitate advancements in research on price-setting behaviour, through both better model parameterisation and empirical validation.