

COMPETITION, MARKUPS AND INFLATION: EVIDENCE FROM AUSTRALIAN FIRM-LEVEL DATA

BY CHAMPION, EDMOND, HAMBUR

Discussion by Petr Sedláček

Conference on the Inflationary Challenge

RBA, 2023

TO BEGIN WITH...

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The age of greedflation

How corporate profiteering is
making us poorer.

By Will Dunn



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The Economist

Menu | Weekly edition

Leaders | An enduring error

"Greedflation"

By Will Dunn

JOURNAL

nd Probably

reases, first-

The New York Times

Fed Pauses Rates | Will Rates Stay High? | Gas Prices Rise | National Debt Tops \$33 Trill

MARKETS | HEARD ON THE STREET

'Greedflation' Good for the

Companies have quarter earning-

'Greedflation' Rewriting Economics, or Do Old Rules Still Apply?

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The image is a collage of newspaper headlines and logos. At the top left is the 'The Economist' logo in a red box. To its right is a navigation menu with a hamburger icon and the text 'Menu | Weekly edition'. Below this is a section titled 'Leaders | An enduring error' with a large headline '"Greedflation"' and the author 'By Will Dunn'. Overlaid on the right side are several tilted newspaper snippets. One from 'The New York Times' has a headline 'nd Probably' and a sub-headline 'reases, first-'. Another snippet has a headline 'MARKETS | HEARD ON THE STREET' and a sub-headline 'Greedflation' Good for the', followed by 'Companies have quarter earning-'. A third snippet has a headline 'Greedflation' Rewriting Economics, or Do Old Rules Still Apply?'. At the top of this snippet is a navigation bar with links: 'Fed Pauses Rates | Will Rates Stay High? | Gas Prices Rise | National Debt Tops \$33 Trill'. A 'SUBSCRIBE' button is visible on the right. A white arrow points from the bottom right towards the top right of the collage.

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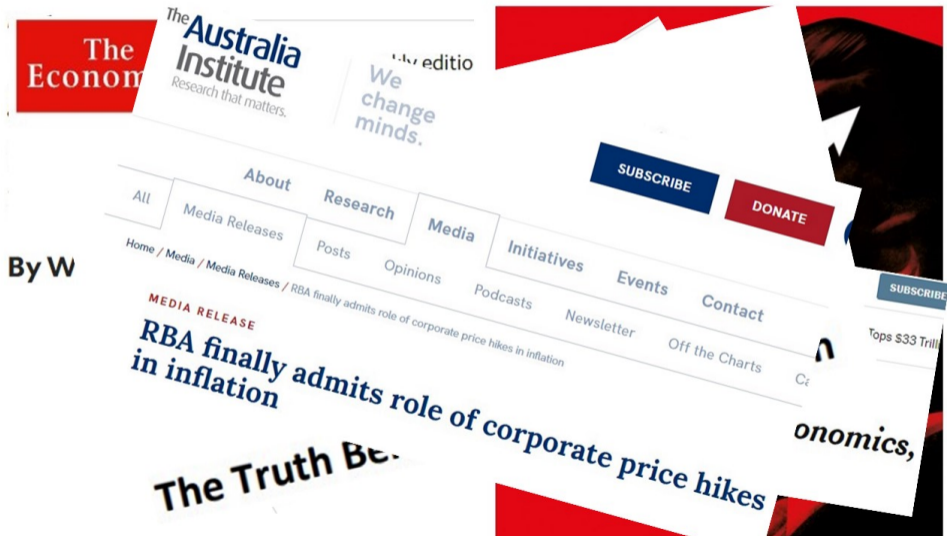
By W

**Profit-Price Spiral:
The Truth Behind Australia's Inflation**
*...ing Economics,
...es Still Apply?*

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RBA finally admits role of corporate price hikes in inflation

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“Greedflation” is a nonsense idea

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Chris Edmond @chrisedmond · 25 Feb
Replying to @chrisedmond

Finally, the idea that one can *quantify* just how much of the rise in inflation is due to an increase in **profit** margins by looking at national income account data alone is, of course, nonsense on stilts. For that you actually need a model

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- calibrate model to replicate cross-sectional features and compare to CES (constant markups)

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 - asymmetric impacts of aggregate shocks?
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 - entry/exit and reallocation between high/low markup firms?
 - ... or, is the super-elasticity moving over the business cycle?

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What about a **really weak version** (ignoring profits)



Chris Edmond @chrisedmond · 06 Jun

RBA throws "greedflation" a very small **bone**.

mains alert to the risk that expectations of ongoing high inflation contribute to both prices and wages, especially given the limited spare capacity in the economy and a low rate of unemployment. Accordingly, it will continue to pay close attention to the impact of labour costs **and the price-setting behaviour of firms.**

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- back-of-envelope: estimate super-elasticity over time/cycle?
- could any such time-varying estimates have quantitative impact?

OTHER (SMALL) THINGS

- how to think about the distinction between P and D?
- what determines the dynamics of the P-D difference?
- $\mathbb{E}_\omega[\bar{\rho}]$ is key: can you do some “shift-share” decomposition over the business cycle?
- a bit more intuition about results: e.g. is $\epsilon/\bar{\sigma} = 0.11$ or $\text{cov}(\bar{\sigma}, \bar{\rho}) = 0.01$ high or low?
- how important is the Calvo probability for the results?
- what if we also don't know θ , can we still easily separate out super-elasticity?