

Who is in the Driver's Seat? Markups, Markdowns and Profit Sharing in the Car Industry

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Summary

- ▶ markup estimation using production function approach 'a la DeLoecker & Warzynski
- ▶ approach to disentangle the standard measure of firm margins into margins in the input market and margins in the output market
- ▶ uses data on financial statements to derive measure of input market margins based on bargaining weights; European car industry
- ▶ results: finds stable markup around 10% in output market but rising markdowns in input market

Some of the things I love

- ▶ great combination of datasets including car model characteristics and prices, firms financial statements, plant location ...
- ▶ relevant to disentangle markup variation into input and output margins to understand sources of change and possible variation over time in firm surplus and market power
- ▶ idea of disentangling effects of changes in product characteristics and quality variation (especially because one hypothesis in literature to explain changes of markups over time is change in product quality)

Comments & Suggestions 1/3

Motivation for production function approach

- ▶ production side approach to estimate markups has clear advantages over demand side approach when more "macro", cross industry, applications
 - ▶ but crucial to motivate use of this approach, which doesn't allow for counterfactuals, when focusing on European car industry
- ▶ another caveat of approach in paper: relevance of observing output and input prices and characteristics
 - ▶ lack of available detailed information on wholesale prices, for example, among main motivations to develop demand side approach to recover price-cost margins...

Comments & Suggestions 2/3

Unobserved input prices and characteristics

- ▶ one of the data restrictions: unobserved quantities of each car model produced in each plant. Solution: weight plant-level prices and characteristics with sales of the produced models in the respective countries.
 - ▶ could different plants specialize in different car models?
 - ▶ Each plant i produces q_j^i such that mg costs are the same across plants. So if different car models have different production cost functions, unlikely that all plants produce different cars in same proportion.
 - ▶ what do you lose with this assumption? / what type of bias do you introduce in estimation of markups and markdowns?

Comments & Suggestions 3/3

Drivers of markdown variation

- ▶ regressions of estimated markdowns on a number of market/industry/firm characteristics to explore drivers of these markdowns
 - ▶ dependent variable: supplier plant-level markups
 - ▶ independent variables: number of new contracts, of manufacturers each supplier group contracts, suppliers' product variety
 - ▶ controls: number of employees and sales
- ▶ aren't these variables endogenous?