The Macroeconomics of Market Power

2023-2024 Academic Year
Master of Research in Economics, Finance and Management

1. Description of the subject

- The Macroeconomics of Market Power — Code: 32701
- Total credits: 3 ECTS — Workload: 75 hours
  Term: 2nd
- Type of subject: Optional
- Department of Economics and Business
- Teaching team: Jan Eeckhout

2. Teaching guide

Introduction

There is a sharp rise in Market Power in the aggregate economy since 1980. First, we analyze the measurement of market power in the macroeconomy using the cost-based method, and document how the distribution of markups and profits has changed. We compare markups and profits to other measures such as concentration indices (e.g., Herfindahl-Hirschman Index, HHI). Then we evaluate the consequences of market power on the economy as a whole and the labor market in particular. We aim to explain a number of secular trends that coincide with the rise of market power: a decline in the labor share, wage stagnation, declining labor mobility, the decline of startups, and the rise of superstar firms. Next, we build a macro model of the economy where firms have market power in their local markets. We use the model to quantify the role of market power and the possible causes, between the market structure and technological change. We then measure and model monopsony power, i.e., market power in the labor market. We evaluate the impact of market power on wage inequality, and on the skill premium in particular, and we study how market power affects executive pay. Finally, we study whether and how income taxes can improve welfare in the presence of market power. The objective is to estimate these models using micro data, and we will back out the distribution of firm productivities, firm markups (markdowns) as well as the market structure. We thus treat the market structure as a residual in the way we treat productivity as the residual.

Course Outline

Below is an outline of the topics I will cover, as well as an extensive list of references. In the lectures we will cover a selection of these papers in detail. I have also written a general audience, non-academic book on the topic (Eeckhout J., *The Profit Paradox. How Thriving Firms Threaten the Future of Work*, Princeton, 2021).

1. Measuring Markups
2. The Macroeconomic Consequences of Market Power
3. Quantifying Market Power
4. Monopsony Power
5. Market Power and Wage Inequality
6. Market Power and Optimal Taxation

References

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KOH, D., R. SANTAEULALIA-LLOPIS, AND Y. ZHENG (2017): "Labor Share Decline and Intellectual Property Products Capital," Discussion paper, Washington University mimeo.

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ROSSI-HANSBERG, E., P.-D. SARTE, AND N. TRACHTER (2018): "Diverging trends in national and local concentra- tion," Discussion paper, National Bureau of Economic Research.

RUBENS, M. (2019): "Monopsony power and factor-biased technology adoption," University of Leuven mimeo.

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SYVERSON, C. (2019): "Macroeconomics and Market Power: Context, Implications, and Open Questions," *Journal of Economic Perspectives*, 33(3), 23–43.

TRAINA, J. (2018): "Is Aggregate Market Power Increasing? Production Trends using Financial Statements," Chicago Booth mimeo.

VLACHOS, J., E. LINDQVIST, AND C. HAKANSON (2015): "Firms and skills: the evolution of worker sorting!," Discussion paper, Stockholm.

Teaching methodology

Lecture format with small group discussion

Assessment

Short Paper

Grading system

0-10:

0-4.5	Fail
5-6	C
6.5-7.5	B
8-9	A
9.5-10	A+