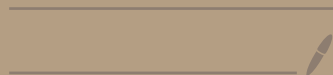


Comparative Statics with Bargained Prices

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<https://www.pascalmichailat.org/t5.html>



Bargained price:

$$- p = p^m = \frac{X^\varepsilon \cdot \mu}{k} \cdot \frac{(1-\beta)^{\varepsilon-1}}{f(\tau^{-1}(\beta/(1-\beta)))}$$
$$- \underline{x = \tau^{-1}(\beta/(1-\beta))}$$

Diagrammatic annotations: A red circle highlights $X^\varepsilon \cdot \mu$. A red bracket groups the entire right-hand side of the first equation. Red arrows indicate the following effects: an upward arrow on ε , a downward arrow on $\beta/(1-\beta)$, and a downward arrow on the denominator $f(\tau^{-1}(\beta/(1-\beta)))$. A large red bracket on the right side of the equations points upwards.

AD shock: Increase in X, μ

- Tightness x remains the same
- Price p increases \rightarrow absorbs AD shock so quantities remain the same
- $\eta, c, f(x), 1-f(x), \tau(x) \rightarrow$ remain the same b/c x is the same \rightarrow AD is neutral.

AS shock: Increase in k

- Tightness x remains the same
- Price p decreases \rightarrow Absorbs AS shock so tightness remains the same.
- $f(x), 1-f(x), q(x), \tau(x) \rightarrow$ remain the same
- $\eta = f(x) \cdot \underline{k}$ so output increases
- $c = \eta / (1 + \tau(x))$ so consumption increases

Bargaining shock: Decrease in β (bargaining power of buyers)
↳ Increase in bargaining power of sellers
(\sim increase in markups)

- Tightness $\alpha = z^{-1} (\beta / (1-\beta))$ decreases

z is increasing
so z^{-1} is also increasing
 $\beta / (1-\beta) \downarrow$

- Price p increases
- η decreases
- $1 - f(n)$ increases
- $f(n)$ decreases
- $z(n)$ decreases

Big difference b/w bargained & fixed price.

- AD shocks are neutral under bargained price but not fixed price
- As shocks do not affect tightness under bargained price but they do under fixed price.