Comparative Statics with Bargained Prices

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Bargained price:

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

- $x = \tau^{-1}(\beta/1-\beta)$

AD shock: Increase in x, ν

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

AS shock: Increase in k

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

Bargaining shock: Decrease in β (bargaining power of buyers)

↳ Increase in bargaining power of sellers (↝ increase in markups)

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

z is increasing so z^{-1} is also increasing

$\beta/1-\beta \downarrow$

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