More Than the Sum of Its Parts? Markups and the Role of Establishments

Markus Kondziella[1], Joshua Weiss[2]

[1]University of St. Gallen and SFI [2]University of Bristol and IIES

6^{th} Annual Workshop in Quantitative Macroeconomics

Discussant: Riccardo Silvestrini

Queen Mary University of London

Summary

- The paper studies how the presence of variable markups distorts firm production/allocation on two dimensions:

  1. how many establishments to open? $\rightarrow$ *extensive*
  2. how much to produce in each? $\rightarrow$ *intensive*

How should optimal policy take into account the two distortions?

Results

- Empirical Evidence:
  1. Positive correlation sales per establishment and firm's markup
  2. No clear link between # establishments and markups
  3. Firm's later establishments are smaller over their life cycle $\rightarrow$ key for the model: new establishments have lower quality

- Theoretical Results:
  1. Losses from misallocation because large firms produce too little and small firms too much (EMX, 2023)
  2. Effectiveness of firm size-dependent policy is dampened: $\rightarrow$ shifting production to large firms' establishments leads them to open new low quality establishments

Comments

- Interesting topic, with empirical and theoretical perspective
- Opening the black-box: looking at establishments and not just firms is key to understand allocation of resources
- Not the standard US dataset, good for the literature!

Extensions and Open Questions - Data

"using labour as the measure of variable costs does not agree with the empirical data and so one should use the bundle of goods"

Supply-side markups as in De Loecker and Warzynski (2012), based on Hall (1988). Under cost minimization, input-price-takers firms:

$$\mu_{ikt} = \theta_{ikt} \frac{Sales_{ikt}}{VC_{ikt}},$$

$\theta_{ikt} = \theta_{kt}$ can be justified with *mild* assumptions, see Xhani (2025)
$\rightarrow$ still, some costs: Foster, Haltiwanger and Tuttle (2022).

- What about VC? Labor? Materials? Both? **Labor** for you.

$\rightarrow$ COGS vs. XSGA in Traina (2018). You have **intermediates**!

Extensions and Open Questions - Model

"relative to the Kimball specification we have a finite number of firms, hence genuine strategic interactions"

Kimball? Endogenous/variable markups but still monopolistic competition with atomistic firms $\rightarrow$ no market power

To me, opening an establishment is very strategic, both for the input and the output markets, and very granular!

- Important to distinguish from standard models with firm-sector-aggregate nested Kimball $\rightarrow$ **markets**?

Minor Points

- Can you just say that part of the workforce is used to open new establishments? So you do not have to add *capital*
- You say same-quality establishments have the same outcomes, no matter the firm that controls them $\rightarrow$
  Is the model isomorphic to a standard firm-sector-aggregate economy? *Probably* not, because quality is known upon entry
- I know it is preliminary, but more should be said on the existing literature, in particular for the empirical part