Two-Sided Search in International Markets (Eaton, Jinkins, Tybout, Xu)

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One-slide summary

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- A search model of suppliers and retailers.
- Suppliers compete more within retailers than across retailers.
- Both sides search with endogenous intensity.
- After matching, they split a joint surplus (avoiding double marginalization).

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- Suppliers compete more within retailers than across retailers.
- Both sides search with endogenous intensity.
- After matching, they split a joint surplus (avoiding double marginalization).
- Application for Colombian footwear imports.
- Skewed (but not Pareto) degree distribution. The median firm has 1 partner.
- Preliminary quantitative analysis:
  - large capital value of supplier links
  - differential impact of search technology

The research agenda

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Business model

A business model is a repeatable and scalable process to

1. generate
2. deliver
3. capture

customer value.

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- Net effect depends on η and α.
- How to identify these?

Sales of seller j to buyer i

$$r_{ji} = K_3 \cdot h_{j|i}^{(\alpha-\eta)/(\alpha-1)} \mu_i^{\eta-1} \tilde{c}_j^{1-\eta}$$

- r_{ji}: revenue
- $h_{j|i} = r_{ji} / \sum_k r_{ki}$: within-buyer revenue share

Sales of seller j to buyer i

$$\ln r_{jit} = \ln K_{3t} + \frac{\alpha - \eta}{\alpha - 1} \left(\ln r_{jit} - \ln \sum_k r_{kit} \right) + (\eta - 1) \ln \mu_{it} - (\eta - 1) \ln \tilde{c}_{jt}$$

The De Loecker term

- Firm-level relative prices (unobserved) expressed in inverse demand:

$$p_{ist} - p_{st} = -\frac{1}{\eta}(q_{ist} - q_{st})$$

- De Loecker (2011) substitutes these out:

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- What (s, t) variation can identify this?

Exploit variation in n

- What happens to other sellers when a buyer adds/drops a seller?
- Most of the variation is $\{0, 1, 2, 3, ...\}$.

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  - transitional dynamics
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- Match joint dynamics of n and r?