Discussion of Simon Mongey's "Market Structure and Monetary Non-neutrality"

Sushant Acharya

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Motivation

- "standard" menu cost model (GL, 2007) generates weak non-neutrality

- various fixes: economies of scope, multi-sector models, rare but large shocks etc

- this paper asks a very reasonable question: *why do we insist on modeling price setting behavior of firms in terms of a monopolistically competitive market (MC) structure, especially when most markets are dominated by a handful of firms*

- this paper: duopoly firms in each sector instead of MC firms

Punchlines

- with oligopoly, end up getting substantial non-neutrality

- don't need strong enough static complementarities - dynamic complementarities

Why does this work?

- oligopoly - deviation from isoelastic demand.

- kimball aggregator-ish demand systems qualitatively similar

$$y_i = \left(\frac{\mu_i}{\mu}\right)^{-\eta(\varepsilon \frac{\mu_i}{\mu})}$$

but can't deliver quantitatively

My big problem with the paper

PLEASE!!! use a color blind friendly palette
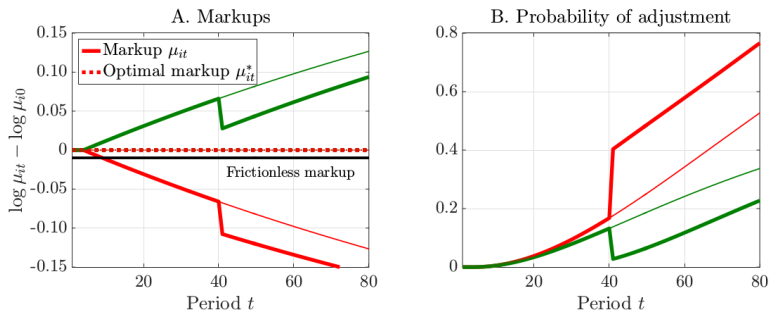
Why does this work? (MC)

Figure 2: Example - Positive monetary shock in monopolistically competitive model
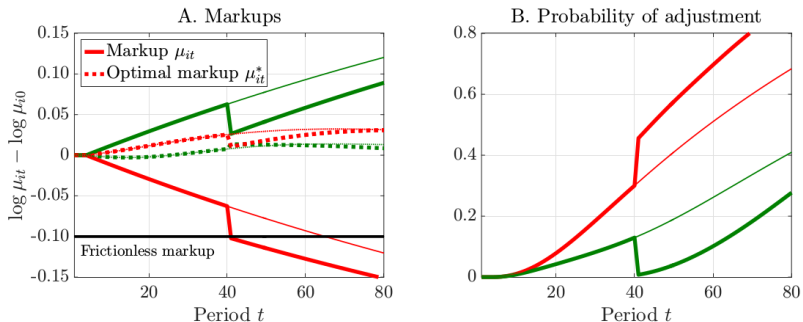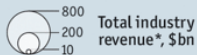
Why does this work? (Duopoly)

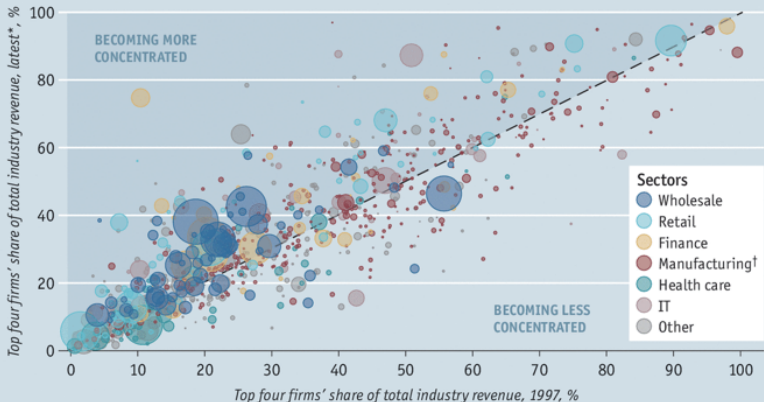Figure 3: Example - Positive monetary shock in duopoly model

Why is this a good idea?

A widespread effect
Top four firms' share of total industry revenue, %
United States, 893 industries, grouped by sector

Total industry revenue*, $bn

Sectors
- Wholesale
- Retail
- Finance
- Manufacturing†
- Health care
- IT
- Other

BECOMING MORE CONCENTRATED

BECOMING LESS CONCENTRATED

Top four firms' share of total industry revenue, latest*, %

Top four firms' share of total industry revenue, 1997, %

Sources: US Census Bureau; The Economist   *Latest available, 2007 or 2012   †By valued-added

Economist.com

what now?

- ▶ seems like increasing market concentration can explain a lot of the disappointing economic performance over the last few decades

- ▶ increasing concentration could explain higher markups, decline labor share, investment etc. - implications for changes in monetary policy effectiveness?

what now?

- ▶ BUT...

- ▶ matching aspects of price-change distribution at the micro level does not identify which model we should use

- ▶ this paper: very flat Phillips curve, others Blanco (2017): very steep Phillips curve

- ▶ very different policy implications

How should we parameterize

- "easier" to calibrate MC models; harder in dynamic games world

- discount factors are important here (Athey and Bagwell, 2001)

- once you have strategic players, timing matters via discount rate, determines level of price stickiness

- hard to calibrate separately, need to calibrate jointly

Overall..

- very nice paper!

- oligopoly could amplify monetary non-neutrality

- the billions of equilibria possible in dynamic games pose a challenge on how to parameterize these models

THE END