Reading Response: Berger, Herkenhoff and Mogney (2022)

Ari Anisfeld and Tanya Rajan

April 2022

1 Summary

- The students could use help with the intuition of how firm size/labor market power is determined in the model. Students have a number of questions about how the productivity and output relate to labor market power. e.g. what are the implications if we were to add market power for goods. Clara has a number of questions that I imagine other people also struggled with but did not articulate.
- Students want intuition on how to think about extensions of the model. Phil suggests adding labor market discrimination; Miguel wants to see the role of unions.
- What are the implications for public policy?

2 Responses

- **Clara**

  All direct quotes:

  - Several questions related to productivity and market power:
    - (a) What is the intuition for why the most productive firms are the ones with the most market power?
    - (b) Is it that the most productive firms are also the largest firms and that the size of the firm is what determines its market power? Based on the formula for elasticity, I think it is the case that it's the size of the firm (more precisely, its payroll share) that ultimately matters.
    - (c) In this model, are the most productive firms always the ones with highest payroll shares? (I think the answer is that there is a negative covariance between markdowns and productivity and that this relationship is generated by the strategic interaction between firms within a market...)

    * (d) The most productive firms having the most market power–is this the usual result in the literature?
  - How dependent are the results (e.g., closed form formula for elasticity of labour supply that depends only on observed payroll share and substitution parameters) on the functional forms chosen?
  - How are the two elasticity parameters (θ, η) related to the two sources of market power in the oligopsony model (DWL from pure oligopsony power, efficiency loss from misallocation)?
  - A very short question – the result that declining local labour market concentration between 1977 and 2013 increased labour's share of income – this is what we would have expected, right?
  - What would policymakers do with the findings of this paper?

- **Hugo** "The perfect substitution in consumption seems to be a significant restriction on the consumption side. In particular, it sets the relative price of all consumption goods to be the same. I think this is a point that is not made explicitly in the paper."

- **Phil**

  - Comments that he thinks the model is broadly applicable "we could apply this framework generally and allow for wage discrimination (possibly applying a Nash bargaining approach), decaying across-market elasticities, and correlations between product market power and wage market power. Overall, the tractability of the model allows for a variety of avenues of further exploration, as we further relax the assumptions and increase the depth and richness of the analysis"
  - Points out that identification rests on strong assumption that tax changes are orthogonal to determinants of wages and employment shares.
  - Dislikes that heterogeneity is microfounded by a vector of gumbel draws of "job amenities". While he's okay with it within industry, he finds unrealistic across industry.

- **Miguel**

  - He asks a few questions aimed at understanding how we incorporate a richer other-side of the labor market. How do we think about monopsony when there is more union power? Can the model account for workers who have tenure? Do firms have more or less power when there are gig workers?

- **Xiaoqi Zhou**

  - Notes that work-from-home and more generally economic digitalization should allow for more substitutablity across jobs. Wonders how this affects our interpretation of the model.

  - What are alternative explanations for declining labor share? Is there a role for demographics?

- **Victor**
  - "On a public policy perspective, how do we understand these conclusions? The market is allocating inefficiently the labor across firms, and this has implications on output and welfare. The natural response of the government would be to increase competition or provide incentives for new firms to enter the market, or perhaps setting taxes according to the market power of the firms."