Micro Data for Macro Models

Topic 5: Trends in Concentration, Competition, and Markups

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Overview of Topic 5

1. Potentially related trends since 1980
   - Aggregate factor shares
   - Composition of firms
   - Market power?

2. Possible explanation of those trends
   - Market power and markups (De Locker, Eeckhout, and Unger 2018)
   - “Superstar firms” (Kehrig and Vincent 2018)
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Global Decline in the Labor Share $\frac{W_tL_t}{Y_t}$

Source: Karabarbounis and Neiman (2014)
Capital Share vs. Profit Share? \( 1 = \frac{W_t L_t}{Y_t} + \frac{r_t K_t}{Y_t} + \frac{\Pi_t}{Y_t} \)

- Split between capital and profit share depends on **user cost of capital**
- Barakai (2017) argues that aggregate user cost has been falling
Capital Share Falling

\[ 1 = \frac{w_t L_t}{Y_t} + \frac{r_t K_t}{Y_t} + \frac{\Pi_t}{Y_t} \]
Profit Share Rising

\[ 1 = \frac{w_t L_t}{Y_t} + \frac{r_t K_t}{Y_t} + \frac{\Pi_t}{Y_t} \]
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   - Market power and investment (Gutierrez and Phillipon 2017)
   - Superstar firms (Autor et al. 2017)
Entry Rate Falling

Source: Pugsley and Sahin (2015)
Firms are Aging

- Firm dynamics constant $\Rightarrow$ average age increasing
Dynamism Falling

Figure 2: 90-10 Gap in Firm Growth Rates (Employment-Weighted Distribution)

Source: Decker, Haltiwanger, Jarmin, and Miranda (2014)
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Profit Share Rising

\[
1 = \frac{W_t L_t}{Y_t} + \frac{r_t K_t}{Y_t} + \frac{\Pi_t}{Y_t}
\]
Concentration Rising

Source: Autor et al. (2017)
Markups Rising?

Source: De Loecker and Eeckhout (2017)
Summary of Aggregate Trends

1. **Aggregate factor shares**
   - Labor share falling
   - Capital share potentially falling
   - Profit share potentially rising

2. **Composition of firms**
   - Entry rates falling
   - Average age increasing
   - Heterogeneity in growth rates falling

3. **Market power?**
   - Concentration rising
   - Some evidence that markups rising
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