

The Macroeconomics of Market Power

2022-2023 Academic Year
Master of Research in Economics, Finance and Management

1. Description of the subject

- The Macroeconomics of Market Power Code: 32701
- Total credits: 3 ECTS Workload: 75 hours
- Term: 2nd

- Type of subject: Optional
- Department of Economics and Business
- Teaching team: Jan Eeckhout

2. Teaching guide

Introduction

There is a sharp rise in Market Power in the aggregate economy since 1980. First, we analyze the measurement of market power in the macroeconomy using the cost-based method, and document how the distribution of markups and profits has changed. We compare markups and profits to other measures such as concentration indices (e.g., Herfindahl–Hirschman Index, HHI). Then we evaluate the consequences of market power on the economy as a whole and the labor market in particular. We aim to explain a number of secular trends that coincide with the rise of market power: a decline in the labor share, wage stagnation, declining labor mobility, the decline of startups, and the rise of superstar firms. Next, we build a macro model of the economy where firms have market power in their local markets. We use the model to quantify the role of market power and the possible causes, between the market structure and technological change. We then measure and model monopsony power, i.e., market power in the labor market. Finally, we evaluate the impact of market power on wage inequality, and on the skill premium in particular. The objective is to estimate these models using micro data, and we will back out the distribution of firm productivities, firm markups (markdowns) as well as the market structure. We thus treat the market structure as a residual in the way we treat productivity as the residual.

The objective of this course is to provide you with a set of ideas and tools that you can use in your research, whatever you study: macroeconomics, applied micro, micro theory, industrial organization, public finance, political economy, development, family economics,... Hopefully this will be helpful in writing a chapter of your thesis. At the end of the course, you will write a short paper on a topic of your choice related to the course.

Course Outline

Below is an outline of the topics I will cover, as well as an extensive list of references. In the lectures we will cover a selection of these papers in detail. I have also written a general audience, non-academic book on the topic (Eeckhout J., *The Profit Paradox. How Thriving Firms Threaten the Future of Work*, Princeton University Press, 2021).

1. Measuring Markups
2. The Macroeconomic Consequences of Market Power
3. Quantifying Market Power
4. Market Power and Wage Inequality
5. Optimal Taxation and Market Power

References

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• **Teaching methodology**

Lecture format with small group discussion

• **Assessment**

Short Paper

• **Grading system**

0-10:

0-4.5	Fail
5-6	C
6.5-7.5	B
8-9	A
9.5-10	A+