Entry vs. Rents

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Outline

- Contribution - what the paper does
- Entry assumption - what the paper does not do
- Entry and Linkages - where the paper can show more
- Distortions/Calibration - where the paper can do more

Contribution

- Propogation of industry shocks to aggregate output in inefficient economies, that nest workhorse models like Hopenhayn and Melitz.
  - Compared to allocatively efficient economies, reallocation terms with forward and backward Domar weights arise in aggregate output responses to industry shocks underf different entry modes
  - Second best marginal policy interventions depend on forward and backward linkages

Entry Assumption

- Markups are exogenous wedges
  - Entry and Markups connected just through Zero Profit Conditions
  - Does not explain markup, rent and entry evolution
    - ★ Autor et al. 2020 (no systematic markup variation)
    - ★ Eckel-Yeaple 2020 (no systematic firm size variation)
    - ★ Helpman-Niswonger 2020 (firms are single "industry")

Entry and Linkages

- Given markup wedges, how does aggregate output respond to shocks?
  - Theory clear on contribution of markups, linkages and entry
  - Calibration does not clearly highlight the role of the two new elements (linkages and entry) in first-best and second-best policies
    - ⋆ how does markup regulation affect predicted entry rates
    - ⋆ how do the Domar weights correlate with elasticities
  - What's the right model? Roundabout Economy 180 v 50% Benchmark

Distortions

- First welfare theorem: MC pricing maximizes aggregate profits
- What does the market maximize on aggregate?
  - Feenstra GDP approach, Dhingra and Morrow (2019)
  - Particularly useful in comparing market rents with shadow values of specific factors at the optimum
- Markup wedge and entry assignment weighted profits?
  - Nesting through specifying markup wedges does not show sources of externalities.
  - Hides duality between cost elasticity and revenue elasticity (Zhelobodko et al. 2012)

Calibration

- Cross-sectional covariation in firm-level markups and sales determine efficiency losses
- Discipline covariation with changes in markups and changes in sales
  - Evidence suggests large and increasing differences between firms (Van Reenen 2018)