

HKUST ECON Seminar

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Identifying Firm vs. Product Markups Using Production Data: Micro Estimates and Aggregate Implications

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Abstract

We examine the identification of product-level and firm-level markups using production data. Identifying product-level markups within multi-product firms relies on identifying two technological features that past research has often ignored: (i) the magnitude of within-firm productivity differences (ii) the degree of joint production. Monte Carlo exercises indicate that ignoring (i) and (ii) when estimating product-level markups can quickly lead to bias. A weighted average of firm-product level markups (the "firm markup") can be identified using standard empirical methods without disciplining (i) nor (ii). We show that the firm markup is often recovered from the popular De Loecker and Warzynski (2012) formula, is welfare relevant, and aggregates product-level markups using ideal aggregation weights. We show using Indian manufacturing data that estimated product-level markups often imply marginal costs well above their prices, and display implausibly large variances due to difficulties in specifying properties (i) and (ii). Firm markups are more well behaved.