Rubens: Welfare effects of buyer and seller power

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A nice paper – general but empirically tractable

- Theoretically:
  - Incorporates different canonical conduct models into a bilateral bargaining model
  - This provides a flexible way to think about input market distortions across a variety of settings
  - Can use this to decompose buyer/seller power contributions to welfare

- Empirically:
  - Two calibrations for construction labour and farmer cooperatives show versatility
  - A fully estimated model of the Texas coal procurement market demonstrates full potential

The theory

- What I like about Michael’s approach:
  - Intuitive, testable micro foundations
  - Two simple, estimable parameters for welfare analysis
  - Extensions capture significant richness

- Some things that I keep thinking about:
  - Motivate linear pricing incentive compatibility more?
  - For many bargaining situations, one-shot game simplistic?

(Already) a case for some synthesis?

- Four papers that reconcile two-sided market power in supply chains
- Different assumptions about who gets to propose what, with different implications
- Are they nested? Are there equivalence results?

The empirics

- In my opinion, what really sets the paper apart
  - Tractable
  - Welfare heuristic even where wholesale prices missing
  - Yields estimates that accord with intuition

- Key insight:
  - Large variation in where market power sits
  - So empirical evidence crucial

The empirics – some suggestions

- Worth breaking the paper into two?

- Would allow to explore several interesting aspects:
  - What is identifiable under different data scenarios?
  - How big is the variation in β^* across canonical cases?
  - For maximum policy impact, add an ex-post merger evaluation?

- Some open questions:
  - Does match endogeneity matter?
  - How does relational contracting affect results?
  - How do dynamics (of investment, innovation) influence the outcome?