

[Markets and Markups: A New Empirical Framework and Evidence on Exporters from China](#)

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Giancarlo Corsetti^{1,2,3,4}, Meredith Crowley^{1,4}, Lu Han⁴, Huasheng Song⁵

¹Centre for Economic Policy Research, ²Centre For Macroeconomics, ³The Cambridge-INET Institute, ⁴University of Cambridge, ⁵Zhejiang University

We develop a new empirical framework to analyse destination-specific markup and quantity adjustments to bilateral exchange rates by exporters. The framework offers two methodological innovations. First, we develop an unbiased estimator of the markup elasticity that correctly isolates marginal costs in large unbalanced panels where the set of markets served by firms varies endogenously with currency movements. Second, we exploit Chinese linguistics to process characters recorded in Chinese custom forms to build a novel, general, product classification distinguishing high and low differentiation goods---which we can use to proxy for exporters' market power. Applying this framework to exporters from China over 2000-2014, we document substantial heterogeneity in destination-specific markup elasticities across product classes and firm types. Conditional on a price change, the average markup elasticity for highly differentiated consumption goods is 32%; markup adjustments explain three quarters of incomplete pass through into import prices for these goods. In contrast, the average for low-differentiation intermediates is only 5%, suggesting that pricing for these goods responds to global, rather than local, economic conditions. Markup elasticities are higher for both state-owned and foreign-invested enterprises than for private enterprises, which, on average, pursue aggressively competitive strategies throughout our sample.