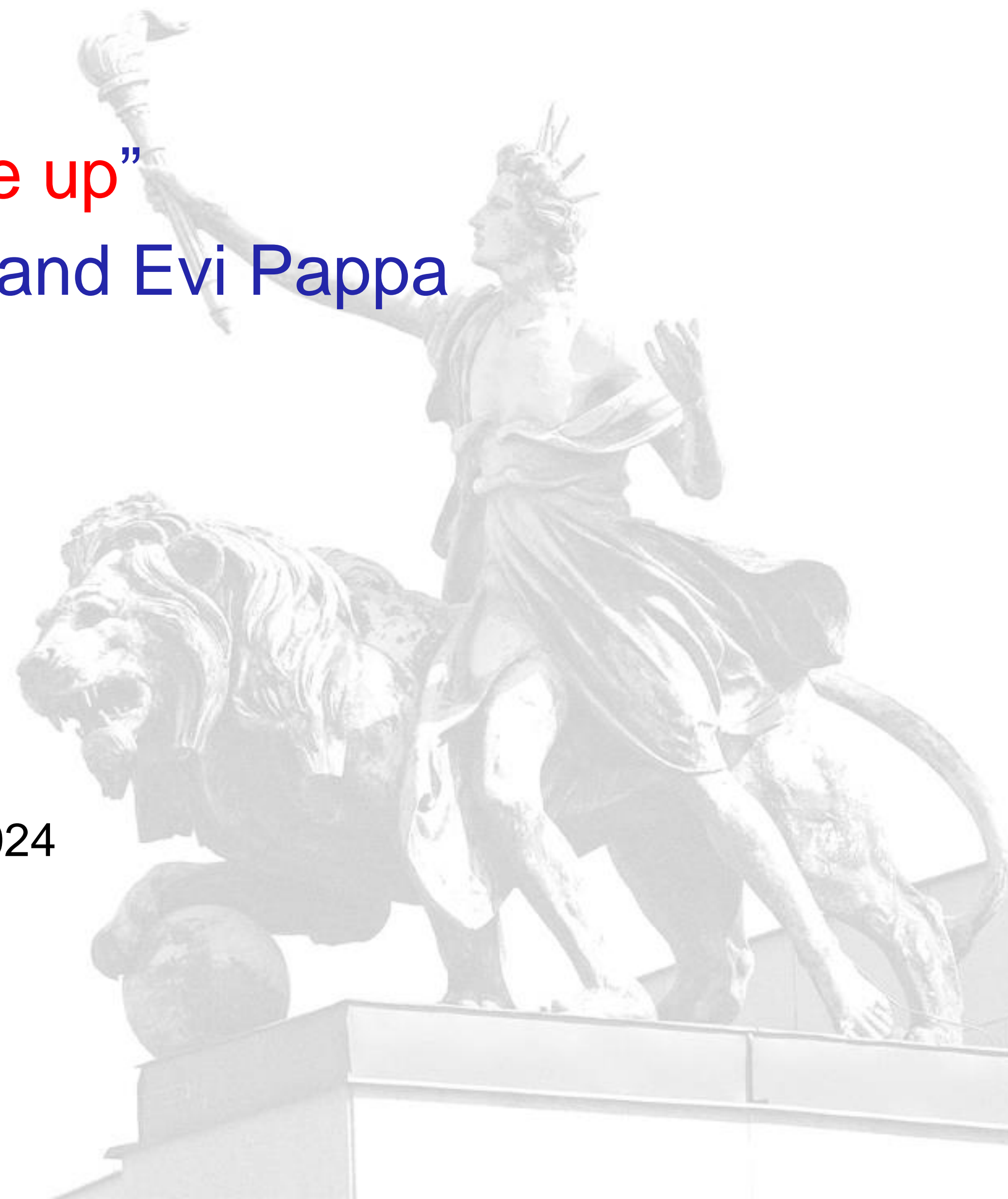

Discussion of „**Not all supply curves slope up**”
written by Edvin Ahlander, Mathias Klein and Evi Pappa

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Heterogeneous Agents in Macroeconomic Models, 16 May 2024



Main findings

- Very interesting paper on an important topic – the estimates of the supply price elasticity
- Very policy relevant
- Careful data analysis – I applaud the authors for their effort

- The paper uses the instrumental-variable regression to estimate the elasticity and finds it is around 0.3.

- The elasticity may be:
 - lower in times of low-capacity utilization
 - higher in times of high and volatile inflation (*in line with recent empirical and theoretical research*)
 - low for exporting firms and firms with high sales volatility and high unit labor costs.

Comments on the choice of instruments

Recall the estimating equation: $p_{i,t} = \alpha_i + \alpha_m + Pq_{i,t} + u_{i,t}$

- The main instrument is the global economic activity shocks identified based on Baumeister and Hamilton (2019). This shock is assumed to:
 1. to increase oil production,
 2. world industrial production -- this is what one wants (correlated with $q_{i,t}$)
 3. and the oil price – does one want to have this effect? (uncorrelated with $u_{i,t}$?)
- For some sectors/firms, this can be fine, but for others less so.
- The analogical comment applies to alternative instruments considered in the paper -- ECB or Swedish monetary policy shocks – as these shocks may affect the costs of firms via working capital channel

Additional points (1): exporting firms

- The paper finds that the price elasticity is lower for exporters
 - Why is it so?
 - Does it reflect international competition?
 - Or different cost structure (the need to pay transport costs)?
 - Does the analysis disentangle the industry effect from export effect?
- If it is due to international completion, does it differ across exporting markets (e.g.EU versus oversees)?
- It can be also interesting to look at supply price elasticity of firms in industries, where Swedish firms face international competition (measured e.g. by imports/domestic VA).

Additional points (2): entry and exit

- Firms that enter or exit may have different supply price elasticity than the firms that stay at the market
- How did the entries and exits were dealt with in the empirical analysis?
 - The firms that enter / exit may be systematically different from the incumbents
 - How does it affect the official indices?

Conclusion

- Very interesting and policy-relevant paper
- To summary, I have three points to discussion:
 1. Validity of instruments
 2. Exporting firms
 3. The effect of entry / exit on the price behavior of firms