Small Price Responses to Large Demand Shocks

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Overview: Contribution

Great paper, very well done.

- Important question in macro:
  To which extent do (retail) prices absorb shocks?
- Answer matters for effectiveness of monetary policy:
  - If perfectly flexible, diminished real effects of monetary policy.
  - If sticky, then more real effects.
- This paper:
  Given local, regional demand shocks, the elasticity of retail prices is quite low. Cleanly identified.

Methodology

What is the elasticity of prices to local demand shocks?

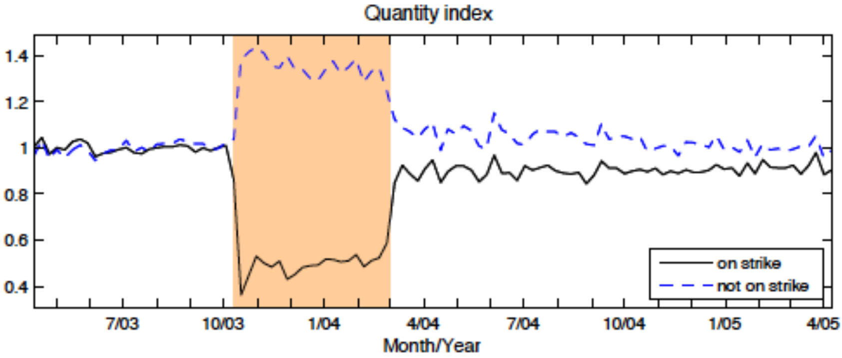
- Detailed prices and quantities from IRI
  - weekly
  - 2001-2011
  - universe of goods in 50 metro areas
- Identification from exogenous, local demand shocks:
  - labor disputes ("on strike", and "not on strike")
  - hurricane Katrina displacement
  - snowstorms
  - hurricanes
- Authors compute elasticity.

Empirical Results

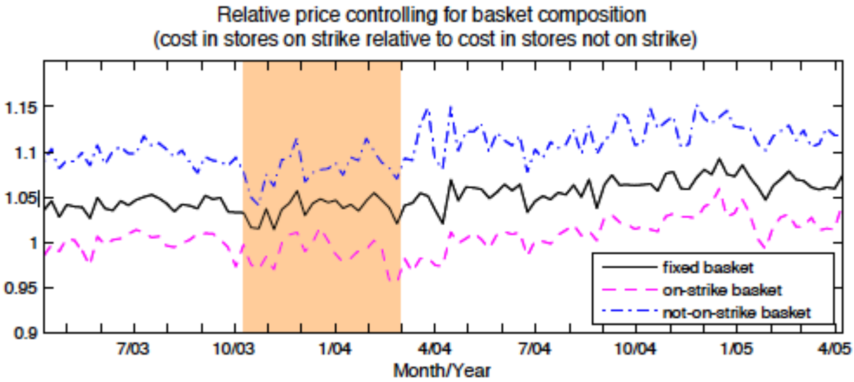
Main empirical findings:

- The supply curve is essentially flat: 0.01-0.07 (cf. Shea (1993): 0.17).
- Short to medium-term elasticity.
- Also: constant MC + no price change $\rightarrow$ no markup absorption.

Empirical Results



Empirical Results



Discussion:

Three comments:

- Identification
- What do we learn about pricing?
- Suggestions

Discussion: Further Evidence

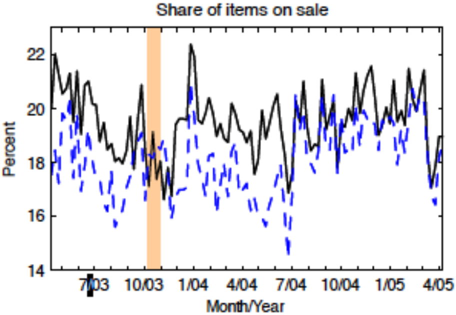
Identification

- Source of variation: certainly exogenous. Very neat.
- What is identified?
  - Immanently: Are all demand shocks created equal?
  - Specificity of shocks: local versus aggregate demand shocks.
  - Aggregate demand shocks: MC is affected, elasticity of demand during business cycle.
  - Local shocks are very local, no GE effects.
- Literature, such as Stroebel and Vavra (2015) looks at other types of demand shocks (house prices) affecting retail prices. Positive elasticity.

Discussion: Further Evidence

What do we learn about pricing?

- Very rich insights into set of retailer strategies.
- Strategic behavior: e.g. matching sales frequency.



- Customer markets: firms lower prices to regain customers.

Discussion: Further Evidence

What do we learn about pricing?

- Conditional aggregate elasticity result.
- Observed prices: equilibrium prices. Not all prices are prices. Paper: it matters what shocks we look at.
- Literature should take more holistic approach. No one model.

Discussion: Suggestions

What to do?

- Great paper, very clean identification. Not much to do.
- Clarify value-add and limitations of the paper:
  - Conditionality of aggregate result
  - Rich set of facts on retailer pricing strategies
- Footnote 10: textual analysis of earnings reports for keywords? Price plans? Motives?
- More about "best prices" (Chevalier and Kashyap 2014)?