

# Search Demand Effects, Equilibrium Unemployment and a Wage Phillips Curve

Discussion

Joe Hazell (Princeton & LSE)

AMSE-BdF Workshop

December 15, 2020

1 Motivation

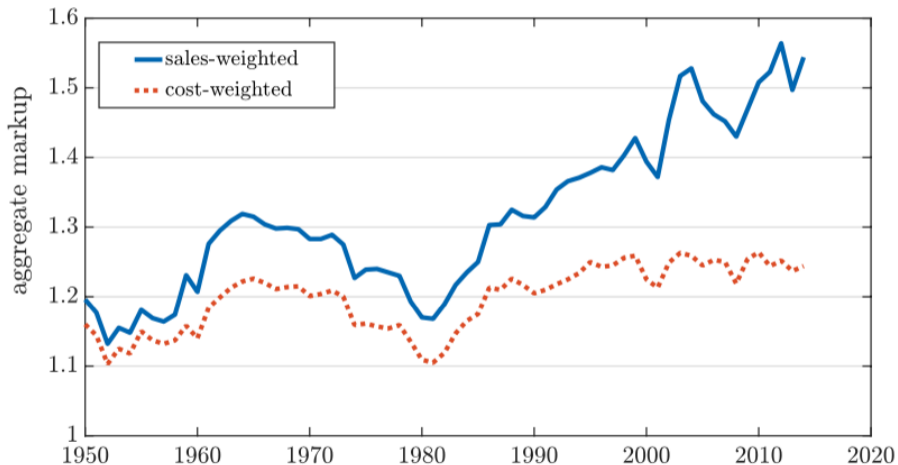
2 Summary

3 Evaluation

4 Caveat

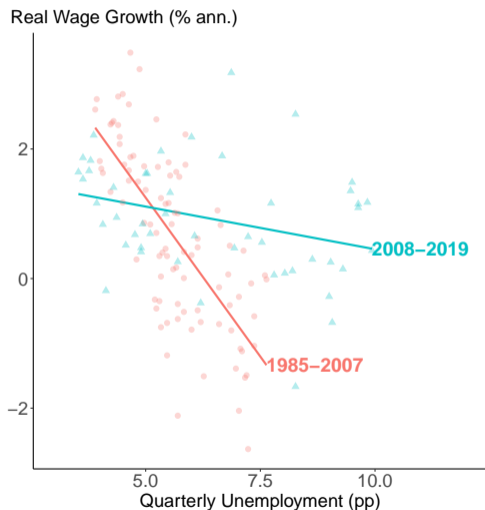
5 Conclusion

## Pattern I: Rising Market Power in US



Source: Edmond, Midrigan & Xu (2019)

## Pattern II: Falling Slope of “Wages Phillips Curve”



1 Motivation

2 Summary

3 Evaluation

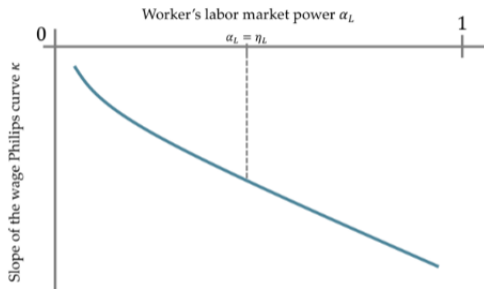
4 Caveat

5 Conclusion

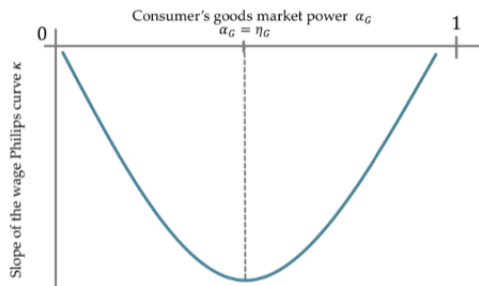
# What Does This Paper Do?

- This paper links market power and wages Phillips curve
- Approach:
  - Framework for jointly studying labor and product market power
  - (Diamond-Mortensen-Pissarides model)<sup>2</sup>
  - DMP in **both** labor market + goods market
  - Nash bargaining weights affect product or labor market power
- Key result:
  - Rising labor market power → falling slope of wages Phillips Curve
  - Rising product market power → ambiguous effect on slope

# Key Result: Rising Market Power, Flatter Phillips Slope



(a) Labor market power

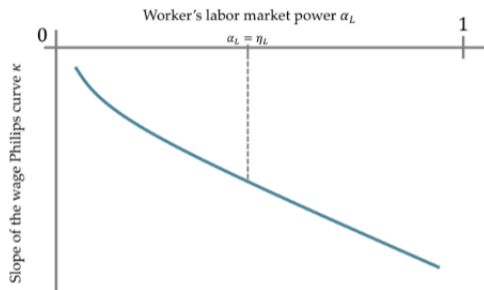


(b) Goods market power

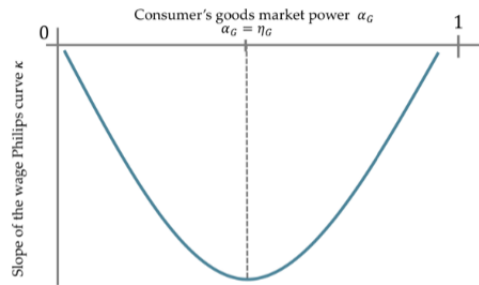
Intuition:

- Lower worker bargaining power  $\downarrow$  "pass through" of firm revenue into wages

# Key Result: Rising Market Power, Flatter Phillips Slope



(a) Labor market power



(b) Goods market power

Intuition:

- Lower consumer bargaining power has **offsetting effects**:
  1. Firm revenue = price x quantity
  2. Firm price becomes more elastic to consumer demand shocks
  3. Firm quantity becomes less elastic to consumer demand shocks



1 Motivation

2 Summary

3 Evaluation

4 Caveat

5 Conclusion

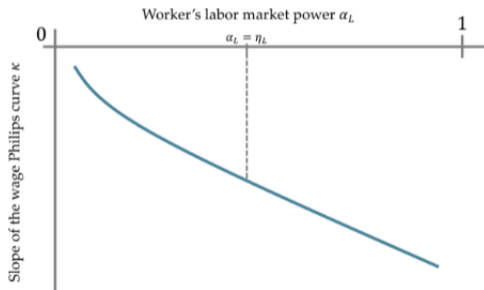
# Evaluation

- This is a great paper!
  
- A lot to like:
  1. Elegant model
  2. Well explained
  3. **Identifies important link between wages Phillips Curve and market power**
  
- Caveat: what happens if wages are not Nash-bargained?

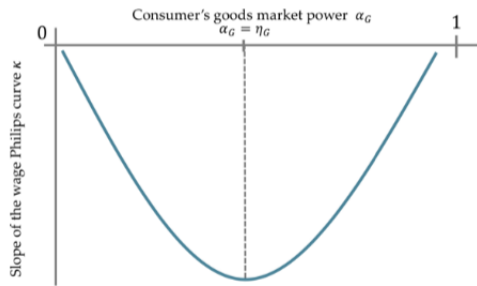
# Understand Market Power Using Wages Phillips Curve (1/2)

- Right now it's not clear if rising market power is due to:
  1. Rising labor market power
  2. Rising product market market
  3. Some combination
  
- Cannot identify **both** labor and product market power from markups alone
  - This paper: slope of Wages Phillips Curve is another useful moment

# Understand Market Power Using Wages Phillips Curve (2/2)



(a) Labor market power



(b) Goods market power

1 Motivation

2 Summary

3 Evaluation

4 **Caveat**

5 Conclusion

# Caveat: What if Wages are Not Nash Bargained?



Source: Hazell & Taska (2020)

# Conclusion

- Great paper!
- Identifies **important link** between market power and Wages Phillips Curve