Seminario de microeconomía aplicada 22: The role of nonlinear pricing and resale price maintenance on nominal price stability

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Universidad del Rosario

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Resumen: This paper empirically examines the role of nonlinear contracts between manufacturers and retail stores, and Resale Price Maintenance (RPM) on nominal price stability. It is widely accepted in the literature that the incomplete transmission of costs shocks into retail prices is explained by the existence of markup adjustment and price adjustment costs. The vertical conduct of the industry and the existence of vertical restraints such as RPM might introduce further price stickiness or reinforce it. I present a structural model of vertical relations between manufacturers and retailers allowing for nonlinear contracts and vertical restraints, and accounting explicitly for retail price rigidity by including fixed costs of price adjustment in retailer's profit function. Using micro data on sales of ready-to-eat breakfast cereals from a large supermarket chain in Chicago, I estimate demand, retrieve upstream and downstream markups, and compute bounds of retail price adjustment costs. Results show that the total costs the retailer bears for adjusting prices of its products in a year lie between 1.6%

and 3% of its total revenue, on average. The role of nonlinear pricing and resale price maintenance on nominal price stability: Empirical evidence from the ready-to-eat cereal industry

Fuente: https://d1b4gd4m8561gs.cloudfront.net/es/sse-cali-22