

# Markup, City Size, and Export: Evidence from Japan\*

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## Abstract

This study investigates markup variations within and between cities by estimating the markups of the Japanese manufacturing establishments. Recent monopolistic competition models with endogenous price-cost markup reveal that the tougher competition in larger cities lowers the markup. On the other hand, within cities, more productive and large-sized firms charge higher markup due to their cost-saving production technology and high-quality products. This study provides empirical evidence which supports these theoretical predictions. An important finding of this study is that markup variations are partly offset between establishment and regional factors when productive and large-sized establishment are located in large cities. Furthermore, this study finds that global markets face tougher competition, like domestic larger markets. Since more productive and large-sized establishments can charge higher markups, they can participate in exporting markets.

*JEL classifications:* D24, F14, L11, L60, R32

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