

Linkage of Markups through Transaction*

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Abstract

This paper analyzes how a firm's markup correlates to its suppliers' markups. Our research targeted more than 40,000 Japanese firms during 2001-16. The dataset is based on the Basic Survey of Japanese Business Structure and Activities, provided by METI, and supplemented by data from financial reports. Transactional relationships between firms are provided by the Firm Relation File, 2006, 2007, 2011, 2012, 2014, TSR. Markup values are estimated by the so-called 'production approach' proposed by De Loecker and Warzynski (2012) and De Loecker, Eeckhout, and Unger (2018). Controlling for firm characteristics such as productivity and age, and year- and industry-specific factors, a firm's markup has a significantly negative correlation with its suppliers' markups. For the entire sample, a firm whose suppliers observe 10% point higher markups has 2% point lower markup on average. This negative correlation is more remarkable for non-manufacturing firms than manufacturing ones. We discuss the factors for variation within Japanese firms' markups that produce these results.

Keywords: markup, vertical relation of firms, transaction between firms

JEL classification: L11, L13, L16, O33

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