Robert Hall opened the discussion by summarizing what was, in his view, the basic finding of the paper: the sensitivity of durable goods expenditure to cyclical demand shocks is high and increases with durability. He argued that this finding, along with the fact that the price of durable goods is acyclical, is consistent with the (alternative) view that both cost-push shocks and demand shocks drive fluctuations in price and expenditure on durables, and that the effects of these shocks on prices net out. He also asked for clarification concerning the authors’ main identifying assumption; in particular, whether the authors assume that cost-push shocks (e.g., terms of trade shocks) are uncorrelated with durability, so that they can be eliminated by subtracting movements in nondurable goods expenditure. If cost-push shocks have general equilibrium effects on aggregate demand, he doubted whether this assumption holds.

Mark Bils responded to these concerns by first emphasizing that the study focuses on markup measures, not prices. He then explained that their identification scheme has problems if cost shocks are correlated with durability and do not pass through to prices. Controlling for movements in input prices could help to eliminate these effects for shocks occurring at the sectoral level, and he conjectured that doing so would not affect their results. Following up on a point raised by Julio Rotemberg in his discussion, he also argued that there might be several different interpretations for the mechanism by which markup movements are amplified by durability. For example, some of these movements might be desired markup movements, which may be correlated with aggregate disturbances. He pointed to the work of Barsky, House,
and Kimball (2007) and his own earlier work for a further exploration of this possibility.

Valerie Ramey made two remarks. First, she pointed to the presence of interaction terms in the authors’ regressions, and asked whether they also included industry-level fixed effects. Mark Bils responded that HP filtering eliminates the need to include fixed effects, and that their results were nevertheless unchanged when he tried including those effects. Second, she emphasized that because the authors only consider relative markups across industries, their findings are consistent with aggregate markups either being procyclical or countercyclical. She then asked why the authors’ results seem to be at odds with two sets of evidence from her own research. First, the ongoing research of Nekarda and Ramey (2010) finds that durability is a weak instrument for demand shocks when interacted with either monetary shocks or GDP, in contrast with the authors’ claim that it provides a good proxy for demand shocks. Second, Nekarda and Ramey (2011) find no effect of government spending on markups, suggesting that markups may not move much in response to demand shocks. Mark Bils responded that these differences might come from the fact that Ramey and Nekarda’s sample is longer (1958 to 2005), includes only manufacturing industries, and has a smaller range of durability across product categories. Peter Klenow argued that different instruments simply lead to different estimates of markup countercyclicality, pointing to the way their results change when Engel curves are used as instruments instead of durability.

Jonathan Parker noted that an important difference between luxuries and nonluxuries is the extent to which consumers are ready to intertemporally substitute consumption of those goods in response to expected prices changes. He suggested that using a utility function that allows for a higher intertemporal elasticity of substitution for luxury goods could help to rationalize the difference in markup behavior between luxuries and nonluxuries documented by the authors.

Susanto Basu emphasized the difference between durability and storability, arguing that the largest changes in expenditures should come from the more storable, not more durable, goods. Second, he recommended interpreting the data through the lens of Keynesian models that do not rely on markup variations as a source of propagation of demand shocks, such as the work of Benhabib and Farmer (e.g., 1994, 1996). He concluded by responding to an earlier question by Valerie Ramey about whether using a value-added production function is incon-
sistent with time variation in markups; he explained that using value-added measures only requires assuming that the share of materials to output is constant.

References


