A Probable Explanation of Firm-Specific Markup in the US

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Understanding why markups differ across firms requires a framework that links pricing behavior to the structure of supply networks and to the strategic bargaining processes that shape input and output prices. Drawing on a Keynesian and Post-Keynesian understanding of price formation this paper offers a probabilistic explanation of firm-specific markup dynamics in the United States. Using accounting-based full-cost markups and decomposing their changes into upstream and downstream components, we show that markup adjustments reflect outcomes of sequential bargaining processes along the supply network rather than pure productivity shocks or technological advantages. As illustrated throughout the manuscript, firms facing cost shocks choose strategically between markup protection, profit protection, or absorption, depending on their positional power and competitive environment.

To model these heterogeneous behavioral responses, we develop a two-dimensional quantal response statistical equilibrium (QRSE) framework, in which firms adjust their upstream and downstream power probabilistically based on deviations from socially optimal benchmarks. This approach yields a joint distribution of firm actions consistent with observed markup changes and with bounded rationality in complex supply networks. Our results highlight that inflationary pressures and changing markups since the 2010s can be interpreted as emergent outcomes of decentralized bargaining, amplified by the asymmetric structure of modern US supply chains. By situating markup dynamics within a statistical equilibrium of firm interactions, the paper provides a coherent explanation for the persistent firm-level heterogeneity observed in US markups.