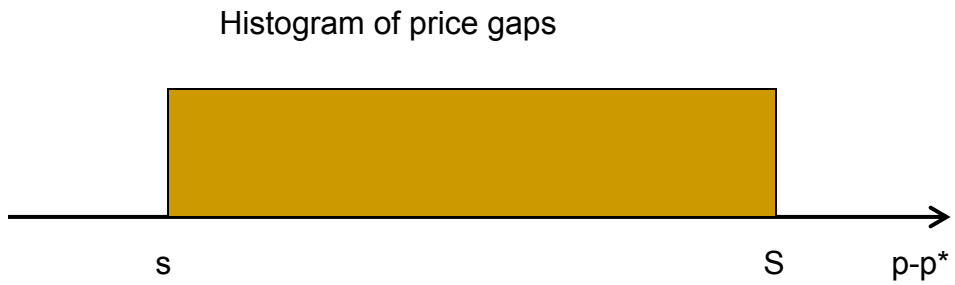
“Menu Costs, Multi-Product Firms, and Aggregate Fluctuations” by Midrigan

Discussion by:
Ricardo Reis

Brief summary

- New facts on retail store data:
  - Leptokurtic distribution of price changes (many small and many very large).
  - Stores adjust prices in narrow goods close to each other.
- Extension of menu-cost model
  - Leptokurtic distribution of idiosyncratic productivity shocks.
  - Two-product firm with fixed cost of adjusting both prices.
- Policy application:
  - Larger effects of monetary shocks

The selection effect (Caplin-Spulber)



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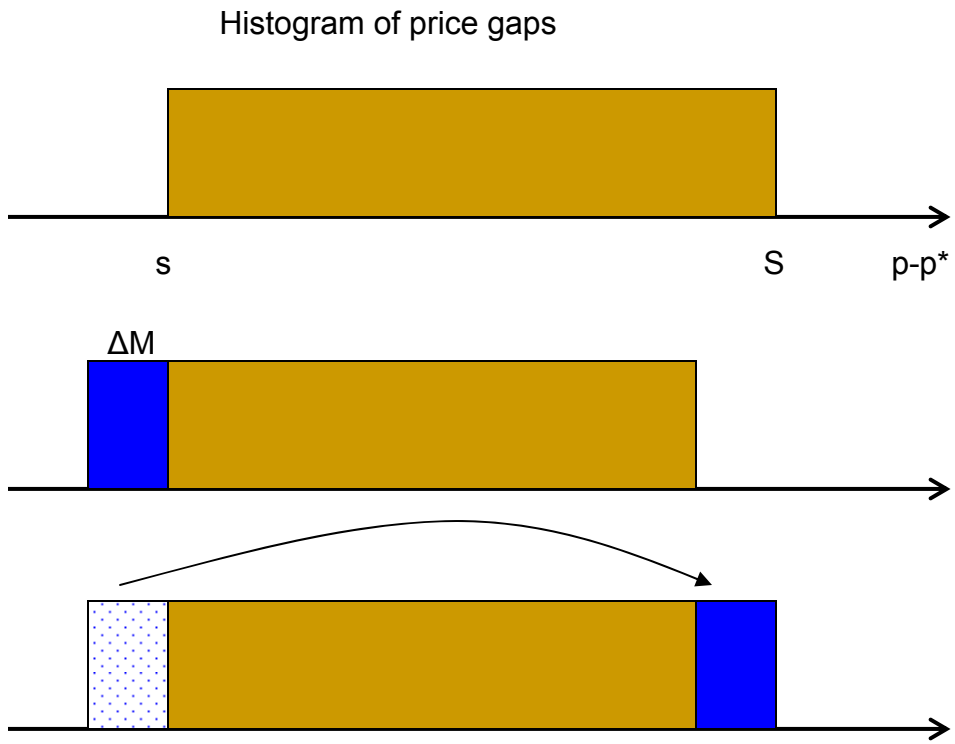

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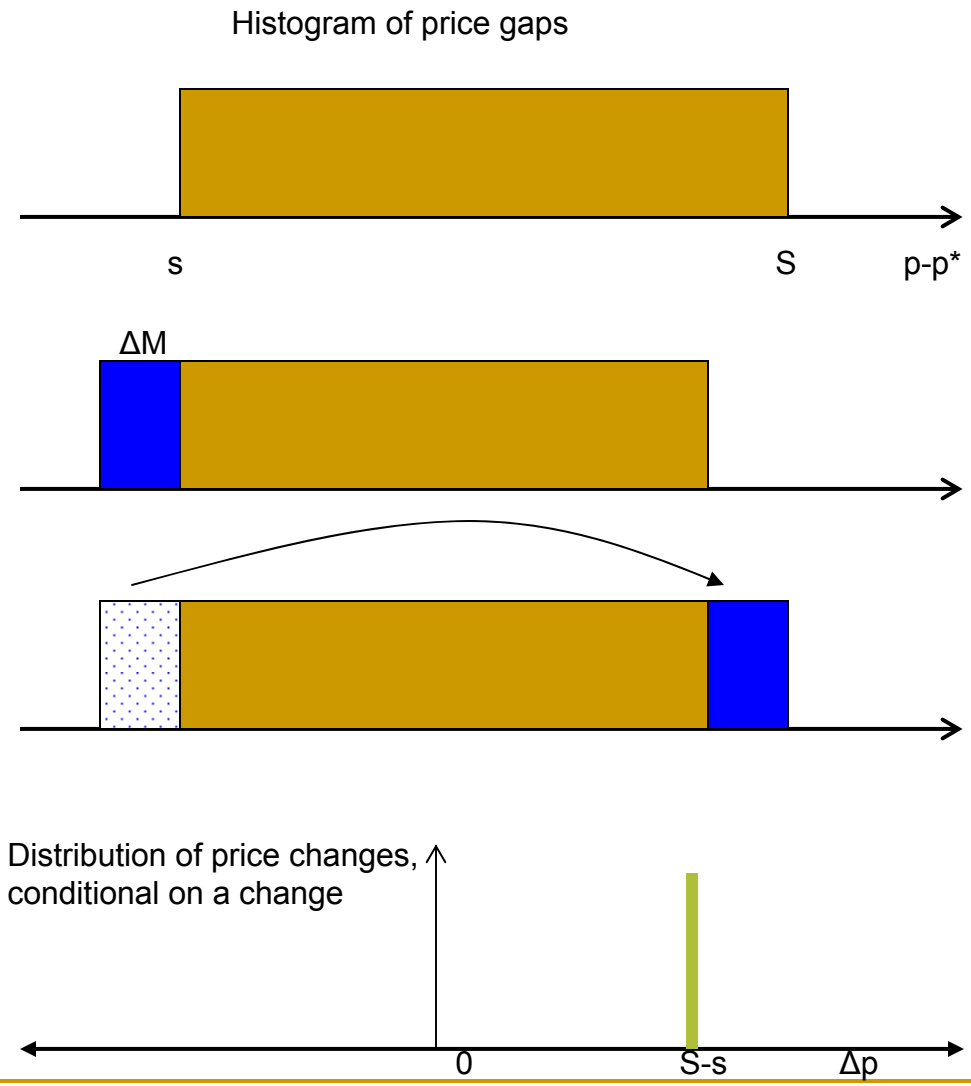
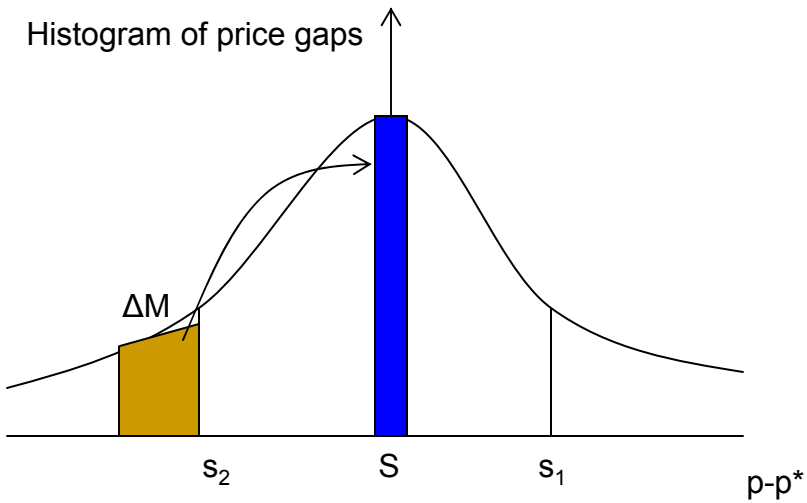
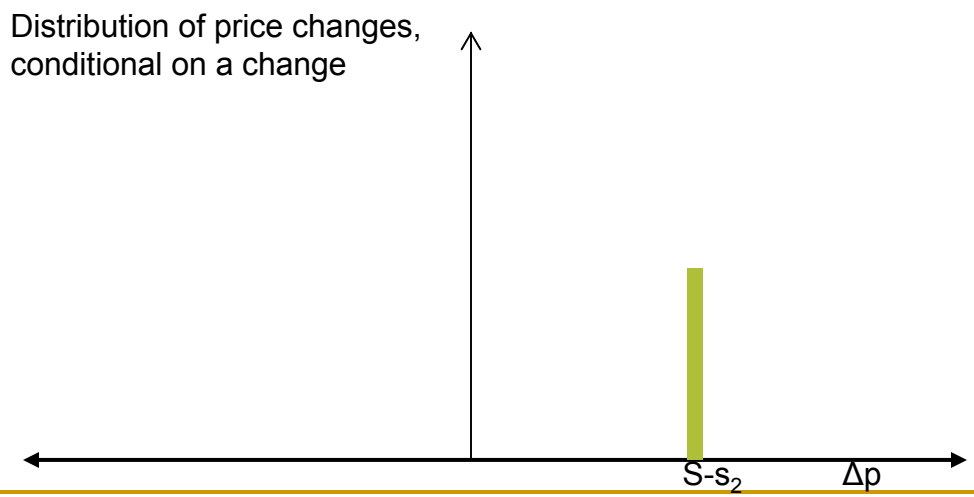


The selection effect (Golosov-Lucas):





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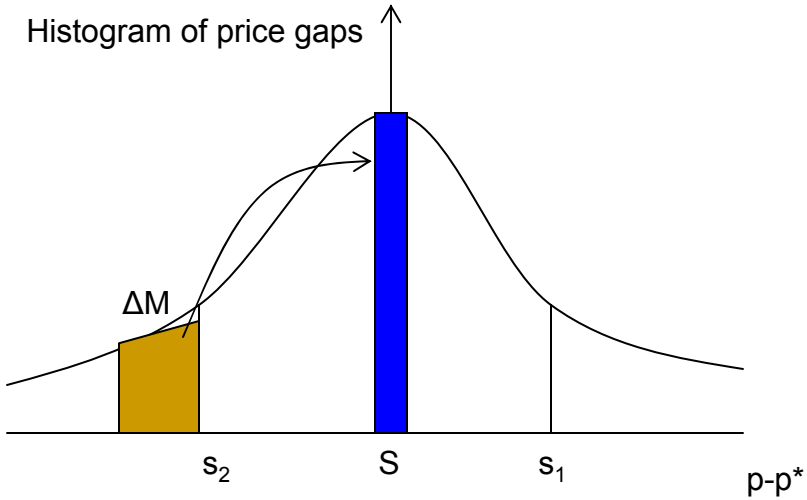
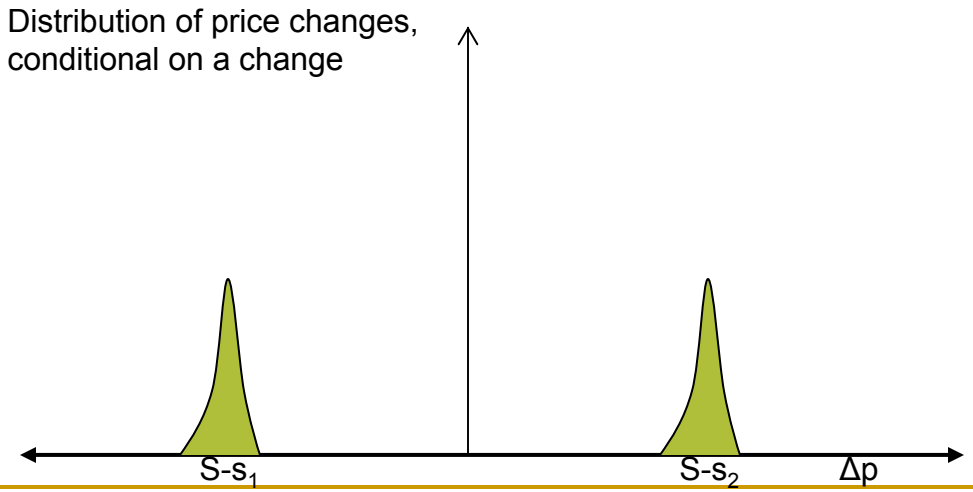
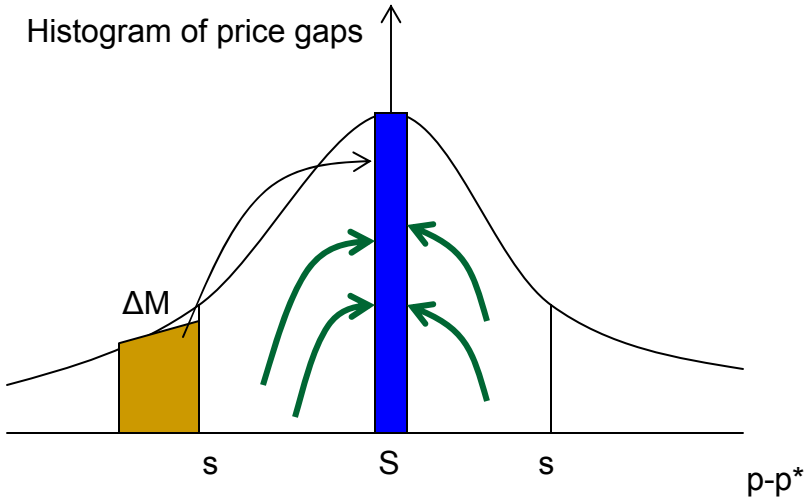
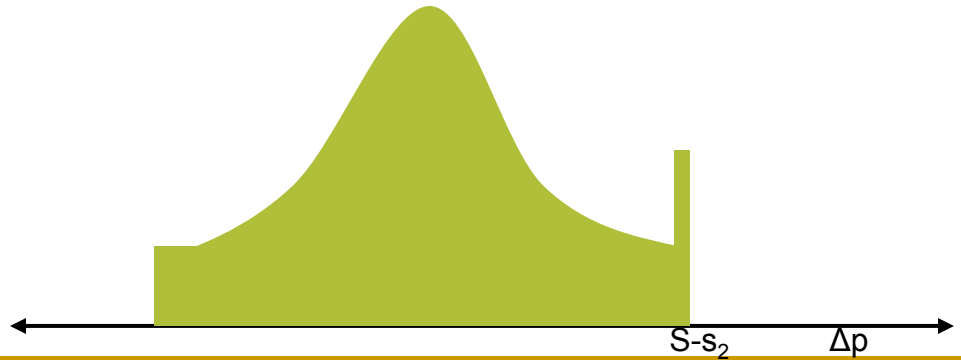




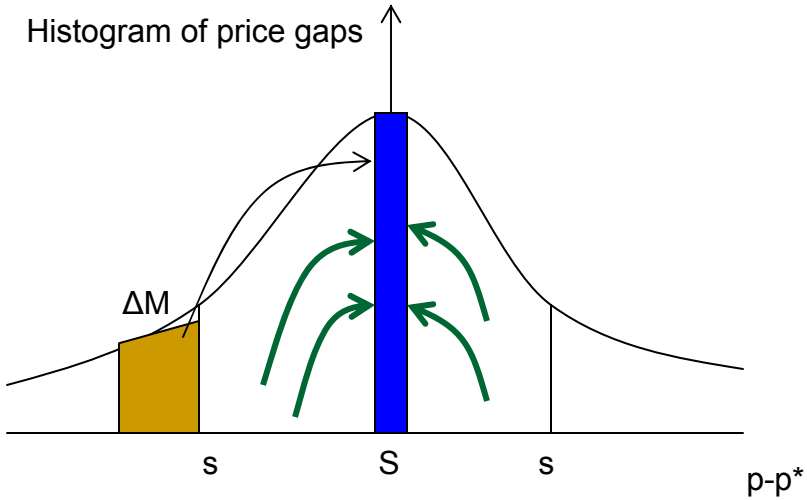
The selection effect (Midrigan take 1)

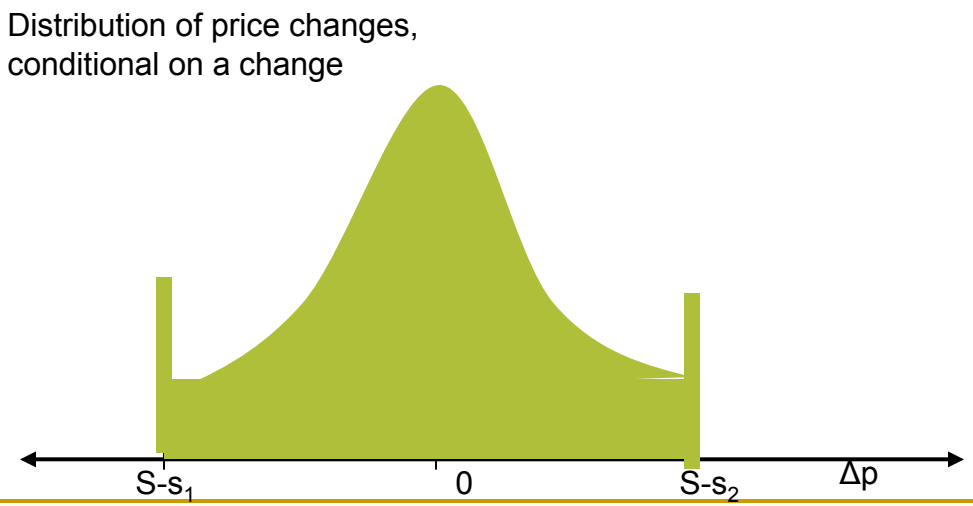


Distribution of price changes,
conditional on a change



The selection effect (Midrigan take 2)



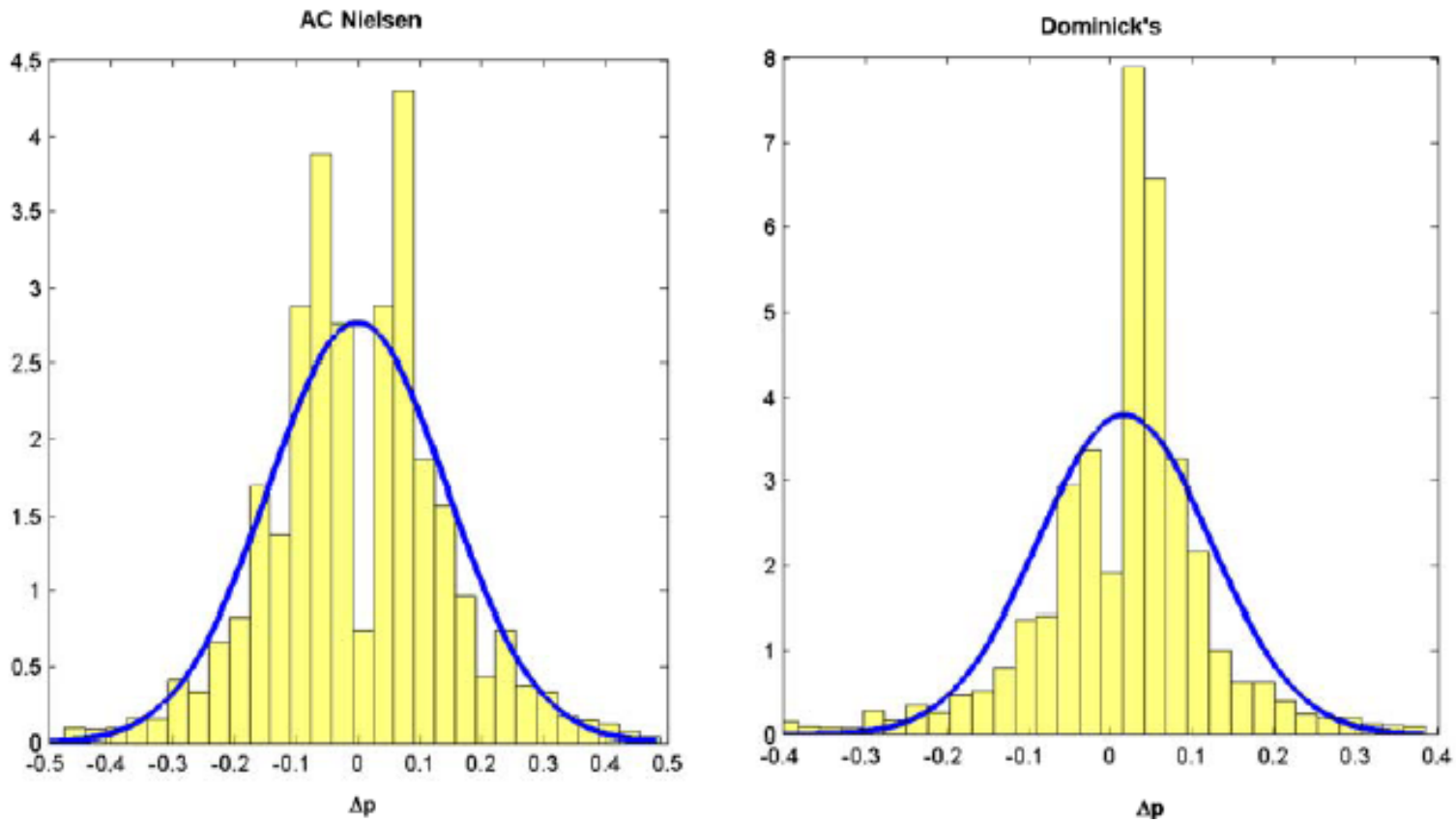


Comments on the empirics

1. Kurtosis: 3.5 (Nielsen), 5.4 (Dominick's), 3 (normal)
   - Significant? Anscombe-Glynn test missing.
   - Seems to matter so much to economics, but unclear accuracy of the statistics. Missing some standard errors.

Comments on the empirics

Figure 1: Distribution of price changes conditional on adjustment



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2. What about skewness?

3. What do other experts on these data say?
   - Ask Daniel Levy.

Comments on the empirics

Levy et al (2005) “Asymmetric Price Adjustment in the Small”

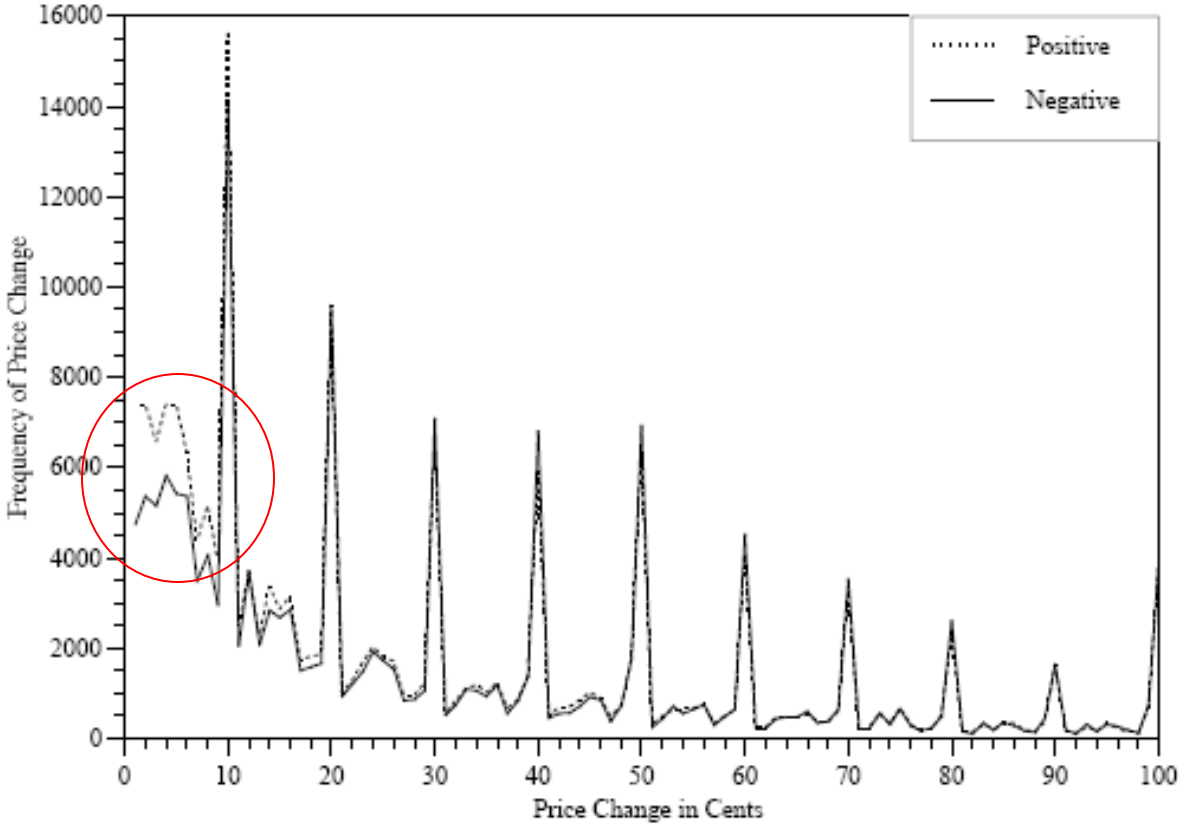

Figure R1. Average Frequency of Positive and Negative Price Changes
All 29 Categories, Low/Zero Inflation Period

Comments on theory

1. Assumptions on productivity shocks
   - Verifiable. We have productivity data per sector.

2. Alternatively, explain it using the model:
   - Models of attention and anger.
   - Also consistent with Levy's fact.

3. Diminishing returns on micro pricing literature…
   - Ultimately, care about response to monetary policy shock
   - If shifts in distribution, map their impulse response.
   - Klenow and Willis (2006), Boivin-Giannoni-Mihov (next).