The Price of Delay: Supply Chain Disruptions and Pricing Dynamics

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Summary

- **Compelling question**: How do supply chains disruptions affect firm pricing?
- **Ideal mix**: Clear theory + new micro-data + causal analysis + aggregate implications
- **Key findings**:
  - High pass-through on own prices of delivery delays and cost shocks, which are separately identified thanks to the model structure
  - Strategic complementarities: firms raise prices in response to competitors' supply chains disruptions
- **Very polished paper**. A few thoughts/clarifications follow

Modeling Supply Chains

- Supply chains disruptions often involve **sudden interruptions in production**
- Yet, the model does not accommodate **"zeros" in production**
  - Zeros only arise in the limit case of very slow replenishment ($\mu \to 0$)
- Is there a **mapping between your model** and
  - Leontief-type world where the death of one supplier halts downstream production altogether?
  - World where firms invest to maintain a diversified mix of suppliers (maybe akin to higher τ)?
- Models with and without zeros may deliver very different **welfare predictions**

Delivery Shortfall Measure /1

- **Def**: cumulative k-month import value deviations from 2019 level (month-on-month)
- How does it compare with **other measures of GVC disruptions**?

Figure 1. Supply Chain Pressure Index and Inflation

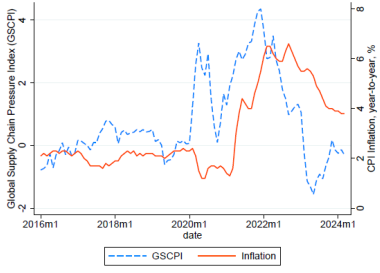
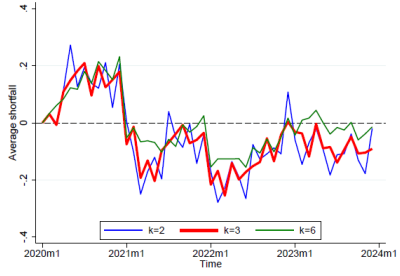


Figure 4. Average Delivery Shortfall Over Time



. . . Similar to but less volatile than GSCPI?

- A discussion on why the measure reflects shortages more than firm strategy would help

Delivery Shortfall Measure /2

- **Main reg**: $\Delta \text{Price}_{p,f,t} = \phi_s \text{shortfall}_{f,t(k)} + \alpha \Delta \text{MC}_{f,t} + \theta_f + \theta_{j(p)q(t)} + \varepsilon_{p,f,t}$
- The variable $\text{shortfall}_{f,t(k)}$ captures

$$\underbrace{\text{firm-level shortages}}_{\text{object of interest (A)}} + \underbrace{\Delta \text{ in aggregate market conditions}}_{\text{absorbed by FE } \theta_{j(p)q(t)} \text{ (B)}} + \underbrace{\Delta \text{ in firm strategy}}_{\text{filtered by IV (C)}}$$

  and is likely endogenous to price changes. Leave-one-out IV $= \text{shortfall}_{-f,t(k)}$

- IV isolates the portion of own shortages explained by competitors' shortages
  - **Identification**
    - I would welcome more discussion on why IV is unrelated to any time-varying firm-level shocks
    - Does identification rely on exogenous shares or shocks? State it clearly
  - **Robustness**
    - Try alternative baseline years (2017 or 2018)
    - Replace import values with number of suppliers or import quantity
    - Restrict the set of competing firms in the leave-one-out sum

Strategic Complementarities

- How do you define **relevant markets** where firms compete and complementarities occur?

- Can you say more about the **mechanism behind strategic complementarity**?
  - Collusive/cartel conduct?
  - Consumer inattention/unawareness?
  - **Cost interdependencies**? Do firm i's shortages correlate with shortages at its upstream wholesaler, who also supplies i's competitors?