MATERIALS PRICES AND PRODUCTIVITY

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Abstract
There is substantial within-industry variation in the prices that plants pay for their material inputs. Using plant-level data from the U.S. Census Bureau, I explore the consequences and sources of this variation in materials prices. For a sample of industries with relatively homogeneous products, the standard deviation of plant-level productivity would be 7% smaller if all plants faced the same materials prices. Moreover, plant-level materials prices are persistent, spatially correlated, and positively associated with the probability of exit. The contribution of entry and exit to aggregate productivity growth is smaller for productivity measures that are purged of materials price variation. After documenting these patterns, I discuss three potential sources of materials price variation: geography, differences in suppliers’ marginal costs, and within-supplier markup differences. Together, these variables explain 15% of the variation of materials prices. (JEL: E23, L16, L60)

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