Price Setting in the Argentine and Colombian Manufacturing Industry

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A price-setting mechanism based on a markup over variable costs is studied for the quite different inflationary experiences of Argentina and Colombia. The paper pursues a twofold strategy: first, it test the null hypothesis of a constant markup against the alternative of a variable one; second, it checks the sensitivity of the price setting mechanism to strong shifts in the macroeconomic environment. The model explains price setting during periods of moderate and high inflation in both countries. However, it is less powerful for the period of price stability in Argentina. Finally, markups seem to be constant for all types of inflationary experiences except hyperinflation. This stands in contrast to a body of literature that has found a negative relationship between markups and inflation for OECD countries. The estimations shed light on other interesting issues: productivity has become a crucial determinant of prices for Argentinian manufacturing firms during the period of stability and opening of the economy; in contrast, the results suggest a weak impact of the opening on Colombia firms.

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