

Monotone Comparative Statics for the Industry Composition

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We let heterogeneous firms face decisions on a number of complementary activities in a monopolistically-competitive industry. The endogenous level of competition and selection regarding entry and exit of firms introduces a wedge between monotone comparative statics (MCS) at the firm level and MCS for the industry composition. The latter phenomenon is defined as first-order stochastic dominance shifts in the equilibrium distributions of all activities across active firms. We provide sufficient conditions for MCS at both levels of analysis and show that we may have either type of MCS without the other. It is therefore possible that firm-level complementarities manifest themselves more clearly at the industry level than at the firm level during comparative statics. This turns out to be the case for a large number of models and shocks considered in the recent trade literature for which we provide strong, novel, and testable predictions.