

# **Market Concentration and Sectoral Inflation under Imperfect Common Knowledge**

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## *Abstract*

This paper first provides empirical evidence that sectoral inflation persistence, measured by autocorrelation of monthly changes in US producer prices, is starkly dispersed and negatively correlated with market concentration in each sector. To account for such empirical observation, we develop a dynamic stochastic model of firms' pricing strategy in which monopolistically competitive firms set their prices while receiving private signals on cost shocks. In the model, an increase in the number of competing firms raises strategic complementarity among the firms in the same sector. Using the model, we analytically show that, under imperfect common knowledge, sectoral inflation persistence is monotonically decreasing in market concentration.