

The Future in Today's Prices: Evidence from a Survey of U.S. Firms

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September, 2026

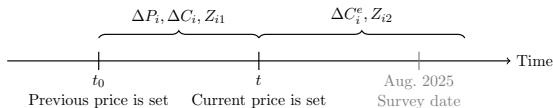
The paper

- **Question:** when firms reset prices, how much do they respond to realized and to expected costs?
- **Well-suited survey design:** aligns timing of questions on price changes, realized cost changes, and firm's expectations.
- **Empirical strategy:** survey wave in which firms report portions of realized and expected cost changes attributable to 2025 trade-policy episode. Instruments for current and expected cost changes.
- **Main findings:** IV pass-through is 0.68 for realized costs and 0.43 for expected costs. Expected costs matter “stickier firms” and services firms.
- Other interesting heterogeneities and connection to/interpretation based on price-setting models with generalized hazards.

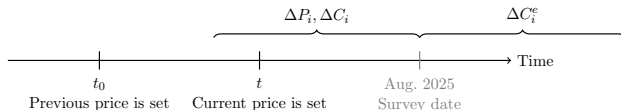
Key equation and survey timing

$$\Delta p_i = \alpha + \beta \Delta C_i + \gamma \Delta C_i^e + u_i. \quad (1)$$

- Δp_i : firm's most recent price change.
- ΔC_i : realized cost change since the previous price adjustment.
- ΔC_i^e : cost change expected over the subsequent 12 months, as perceived when the firm reset its price.



(a) The Morning Consult SMB Survey, August 2025 Wave



(b) Existing Surveys

Assumptions and identification

Mapping the model to the regression

- The 12-month expected cost change proxies for the normalized survival-weighted path of future marginal costs.
- Expectations formed at time of previous reset orthogonal to realized and expected cost changes: $\text{Cov}(R_{t_0}, \Delta C_t) = \text{Cov}(R_{t_0}, \Delta C_t^e) = 0$.

Instrumental variables

- Z_{1i}, Z_{2i} shares of realized cost changes and expected cost changes attributable to trade policy/tariff shock.
- Conditional on controls, tariff exposure affects prices only through current and expected costs: $E[Z_{1i}u_i] = E[Z_{2i}u_i] = 0$.

Both realized and expected costs matter

	Price change ΔP_i		IV first stages	
	OLS	IV	ΔC_i	ΔC_i^e
ΔC_i	0.598*** (0.051)	0.679*** (0.137)		
ΔC_i^e	0.253*** (0.077)	0.427*** (0.150)		
Z_{1i}			0.592*** (0.088)	0.024 (0.067)
Z_{2i}			-0.075 (0.098)	0.588*** (0.089)
N	537	539	539	539
SW F-statistic			55.53	53.46
KP F-statistic		25.61		

- IV increases both pass-through estimates relative to OLS. First stages have strong own-instrument loadings and small cross-loadings.

Heterogeneity by price duration and sector

	Average price duration		Sector	
	≤ 6 months	≥ 7 months	Goods	Services
ΔC_i	1.017*** (0.211)	0.340* (0.206)	0.734*** (0.207)	0.438*** (0.169)
ΔC_i^e	0.254 (0.207)	0.504** (0.198)	0.122 (0.267)	0.449*** (0.136)
N	278	259	110	427
KP F-statistic	12.46	14.67	4.95	17.17
p -value: equal γ	0.38		0.27	

Comments

- Nice – and very polished – paper on an important question: understanding price setting!
- Credibility of some identifying assumptions.
 - Mapping from objects in “theoretical framework for estimation” to data.
 - Exclusion restriction.
- Mapping from conclusions to models of price setting.
- Uninterested complaints: missing credit where it is due.

Mapping model objects to survey objects

- Survey elicits expected cost change over the following 12 months. This is mapped into the change in expected costs in the “theoretical framework for estimation”. **Better assumption for not-so-sticky firms.**
- Authors also assume that the expectation term formed at the time of the last price change is orthogonal to realized and expected cost changes elicited subsequently. **Better assumption for stickier firms.**
- Authors look at firms with typical spell duration ≤ 12 months as robustness.
- But general point here is that **heterogeneity by price duration may confound economic heterogeneity with proxy quality.**
- **Suggestions:**
 - **Bracket firms with typical duration around 12-months.**
 - Also, look at **continuous duration measure**. Try to learn something from how coefficients vary across stickiness spectrum.

Exclusion restriction

- The exclusion restriction requires the trade/tariff channel to affect firms' prices only through current and expected costs. I don't find this very credible.
 - Tariffs can also shift import competition, competitors' costs, product demand, desired markups. These and other possible channels would show up in u_i .
 - The paper's markup-compression example is itself a violation of exclusion that could bias estimates downwards.
- **What would help:**
 - Discussion of these and other channels and the likely biases they induce.
 - Effort to control for some of these other factors.

Mapping from conclusions to models of price setting

- Results on heterogeneity in (subjective) degree of uncertainty taken as evidence in favor of state-dependent pricing models.
- But my intuition suggests results may be due to asymmetries in profit functions – assumed away with the quadratic approximation.
- For instance, standard profit function under CES demand can be quite asymmetric, making firms relatively more worried about finding themselves with too low a price in face of cost increase.
- With high uncertainty about large tariff increases, precautionary pricing behavior that may explain higher-uncertainty firms loading more heavily on expected costs. Footnote 10 dismisses it unduly, imo.
- **Suggestions:**
 - Solve single-firm **non-linear pricing decisions under high- and low-uncertainty**.
 - Exploit **sign of expected cost changes** (if enough variation).
 - **Stratification based on uncertainty and price rigidity**.

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(This may sound a bit self-interested!)