# Two-Sided Market Power in Firm-to-Firm Trade

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**Abstract**

This paper studies how concentration among buyers and suppliers affects bilateral prices and markups in markets with two-sided heterogeneity. We provide a framework for analyzing buyer-supplier bargaining over the price of an imported good. To tractably and feasibly analyze the division of surplus between related parties, we leverage the Nash equilibrium in Nash Bargaining solution concept (Horn and Wolinski, 1988). We show that the main elasticities and model parameters are identified, given data on market shares of suppliers in their input markets, shares of suppliers' goods in buyers' inputs, and shares of buyers' purchases in suppliers' sales. To measure these market shares, we build a novel dataset that merges international trade data from the Longitudinal Firm Trade Transactions Database (LFTTD) of the U.S. Census Bureau with balance sheet information on both U.S. importers and foreign exporters. We use the estimated model to investigate the determinants of prices, markups, and pass-through of aggregate shocks, with a special focus on the role of buyer and supplier concentration. We demonstrate that a shock can have very different pass-through on markups and prices depending on which market concentration are generating the markups. Our insights shed light on both the debate about the relationship between market concentration and markups, as well as on the recent discussions of import tariff pass-through on prices.

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