Innovations for Poverty Action

PASS-THROUGH, COMPETITION, AND ENTRY IN AGRICULTURAL MARKETS: EXPERIMENTAL EVIDENCE FROM KENYA

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Abstract

African agricultural markets are characterized by low revenues for farmers and high food prices for consumers. Many have worried that this wedge is partially driven by imperfect competition among intermediaries. This paper provides experimental evidence from Kenya on intermediary market structure. Experimentally elicited parameters governing cost pass-through and demand curvature are used to calibrate a structural model of market competition. Estimates reveal a high degree of intermediary market power, with large implied losses to consumer welfare and market efficiency. Exogenously induced firm entry has negligible effects on prices and competitiveness parameters, implying that marginal entry does not meaningfully enhance competition.

JEL Classifications: D22, D43, F12, L13, L81, O13, Q13

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African agricultural markets are characterized by low revenues for farmers and high food prices for consumers. Many have worried that this wedge is partially driven by imperfect competition among intermediaries. This paper provides experimental evidence from Kenya on intermediary market structure. Experimentally elicited parameters governing cost pass-through and demand curvature are used to calibrate a structural model of market competition. Estimates reveal a high degree of intermediary market power, with large implied losses to consumer welfare and market e ciency. Exogenously induced firm entry has negligible effects on prices and competitiveness parameters, implying that marginal entry does not meaningfully enhance competition.

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