Review of: "Measuring the Deviations from Perfect Competition: International Evidence"

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Potential competing interests: No potential competing interests to declare.

The article assumes a quadratic total cost function and, from there, obtains an estimate of the marginal cost as a function of product (GDP). First, the author tests the hypothesis that marginal cost (i.e., GDP) is cointegrated with price indicators, that is, they have the same long-term trend. Second, it tests the hypothesis that, in the long run, marginal cost and prices are equal.

1. To test cointegration, the authors calculate an index number (2010=100) for the marginal cost. To test the second hypothesis, do they also use this same index number? If so, wouldn't the results in section 5 only indicate a convergence of the index numbers of marginal cost and prices, and not of prices and marginal cost? For example, as by construction in 2010 both are equal to 100, if both grew, on average, at the same rate from 2010 onwards, they would, in theory, have the same value in the long run when we extract the stochastic trend from the series, but not necessarily be equal (since they were artificially equalized in 2010).

2. Since the marginal cost index actually reflects real output, wouldn't the results simply indicate that output and prices are cointegrated? Do the results not just reflect the tendency of certain governments to establish inflation rates close to their growth rate?

3. Have other functional forms for the marginal cost function been tried? A cubic function, for example, would not have the same implications presented in topic 2.