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## Labor's Share, the firm's market power and TFP

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### Abstract

We investigate the relationship between labor's share, firm's market power and the elasticity of output with respect to labor input using an approach based on an unobserved components model. The approach yields time-varying estimates of market power and the elasticity. Evidence on the market power of firms (which we find to be rising since 2000) gives a deeper understanding of movements in labor's share and the labor wedge. The generated values of the elasticity yield revised estimates of TFP growth which is informative about the extent of the downwards bias inherent in traditional estimates which use labor's share as a proxy for the elasticity.

**JEL codes:** O47, C32, E25

**Keywords:** labor's share, market power, TFP growth, labor wedge, state-space modelling

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