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# Does competition increase pass-through?

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**Abstract** How does market power affect the rate of pass-through from marginal cost to the market price? A standard intuition is that more competition makes prices more ”cost-reflective” and thus raises cost pass-through. This paper shows that this intuition is sensitive to the common assumption in the literature that firms' marginal costs are constant. If firms have even modestly increasing marginal costs, more intense competition actually reduces pass-through. These results apply to the "normal" case where pass-through is less than 100%. They have implications for competition policy and environmental regulation.

**Keywords** Cost pass-through, imperfect competition, perfect competition, production technology

**JEL Classification** D24 (production), D41 (perfect competition), D42 (monopoly), D43 (oligopoly)

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