

Milking the demand curve: consumer and firm behavior in inflationary times
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Abstract

We study the effect of inflation on pricing and competition in the Austrian milk market, where dairy prices rose sharply amid high retail concentration. We combine transaction-level data on 800,000 purchases by over 11,000 households (2014–2022) with farm-gate input cost data. Reduced-form estimates indicate above-unity and rising cost pass-through during the inflationary period. To understand these patterns, we estimate a structural demand model where price sensitivity is allowed to vary with household-specific inflation exposure. We find that household demand becomes less elastic with such exposure. The model produces pass-through predictions that align well with those obtained from the reduced-form analysis. All in all, this framework helps rationalize consumer and firm behavior in inflationary times.