

# SEMINAR

## "Epidemics, Inventory, and Markup: Evidence from the 2003 SARS Shock in China"

**By Dr. ZHANG Hongsong**

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**Date: 15 October 2021 (Friday)**

**Time: 14:30-16:00**

**Venue: WYL314**

### **ABSTRACT:**

Epidemics provide an exogenous shock to firms' inventory stock, which may affect firms' production and pricing decisions dynamically. This paper investigates the impact of serious epidemics on firms' inventory and markup in manufacturing industries. Based on a stylized model of firms' dynamic decisions on production, pricing, and inventory, we demonstrate the necessity of accounting for the heterogeneity in inventory stock and demand uncertainty to understand markup and provide a straightforward measurement. Using the 2003 SARS shock in China as a natural experiment, this paper finds that the epidemic reduced the markup of Chinese manufacturing firms significantly in the SARS-impacted areas. SARS also increased firms' inventory and demand uncertainty substantially, which contributed to a reduction of markup by 2 percentage points for SARS-affected firms. The results highlight inventory (and demand uncertainty) as an important mechanism through which large shocks influence firm performance.

### **BIOGRAPHY:**

Dr. Hongsong Zhang is Associate Professor of economics in the HKU Business School and the Associate Director of the Institute for China and Global Development (ICGD) at the University of Hong Kong. His research covers Empirical Industrial Organization and International Trade, with a focus on productivity and firm dynamics. He serves as an Associate Editor of the International Journal of Industrial Organization (IJIO) since 2020. He also serves in the scientific committee of Comparative Analysis of Enterprise Data (CAED) and the executive committee of China Trade Research Group. His research has been published in leading Economics journals such as Economic Journal, International Economic Review, Journal of Development Economics, and European Economic Review. Dr. Zhang received his Ph.D. in Economics from the Pennsylvania State University and M.A. from Peking University.

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