

When Cutting Out the Middleman Backfires: Disintermediation, Wholesale Markups, and Misallocation*

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Abstract

I study the welfare implications of technology-induced disintermediation using a production network model with endogenous intermediation, wholesaler entry and exit, and markups. Wholesalers economize on the search costs of forming buyer-supplier relationships, but as direct trade technology improves, demand for intermediation falls: marginal wholesalers exit, survivors gain market share, and markups rise. These higher markups distort relative input prices and misallocate resources, partially offsetting the gains from disintermediation. I test the model's predictions using Turkish firm-to-firm transactions, exploiting the staggered rollout of fiber internet. Consistent with theory, provinces with faster fiber growth see less intermediated trade, fewer wholesalers, and higher wholesale markups. Calibrating the model to these responses, endogenous markup increases reduce welfare gains from fiber-induced disintermediation by 30%. The results demonstrate that technologies enabling firms to bypass intermediaries can generate unintended efficiency losses by consolidating wholesale market power, highlighting the potential role for complementary competition policy.

JEL Classification Codes: F12, F14, L13, L81, O33

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