Discussion of "Exchange Rate Pass-through and Market Structure in a Multi-Country World" by Kanda Naknoi

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[1] The views presented here are solely those of the presenter and should not be interperted as representing the views of the Federal Reserve Bank of Dallas or the Federal Reserve System.

Exchange rate pass through into export prices

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- Note: Exchange rate pass through into import prices is 1 plus exchange rate pass through into export prices

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- In empirical studies $-2.26 < \beta_1 < 2.55$

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- If $N=1$, $\varepsilon_{id}=\frac{1}{\beta}\frac{e_{id}p_{id}}{q_{id}}$; if $N\rightarrow\infty$, $\varepsilon_{id}=\frac{1}{\beta-\gamma}\frac{e_{id}p_{id}}{q_{id}}$

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- The export price becomes:

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  - If i is a country with multiple exporters selling a homogenous product from country i, what is to keep them from driving the price down to marginal cost?

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  - Is β_1 now an unbiased measure of pass-through?

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- I could easily write a model where firms are engaged in perfect competition but costs are partly denominated in a third currency.
- Depending on the cost shares and the co-movement of the 3rd party currencies, it is easy to produce pass-through estimates from $p_{id} = \beta_0 + \beta_1 e_{id} + \boldsymbol{\beta}\mathbf{X}_{id} + \epsilon_{id}$ that are well outside of the -1 to 0 range.

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- They argue that the variable markup model doesn't work that well, but a lot of that is due to the particular choice of the CES aggregator
- Rhetorical question: Empirically, do we have a way to separate out the limited pass-through due to firm profit margins and the limited pass-through that is simply due to costs?