

Panel Discussion  
Conference on Exchange Rates  
and Prices

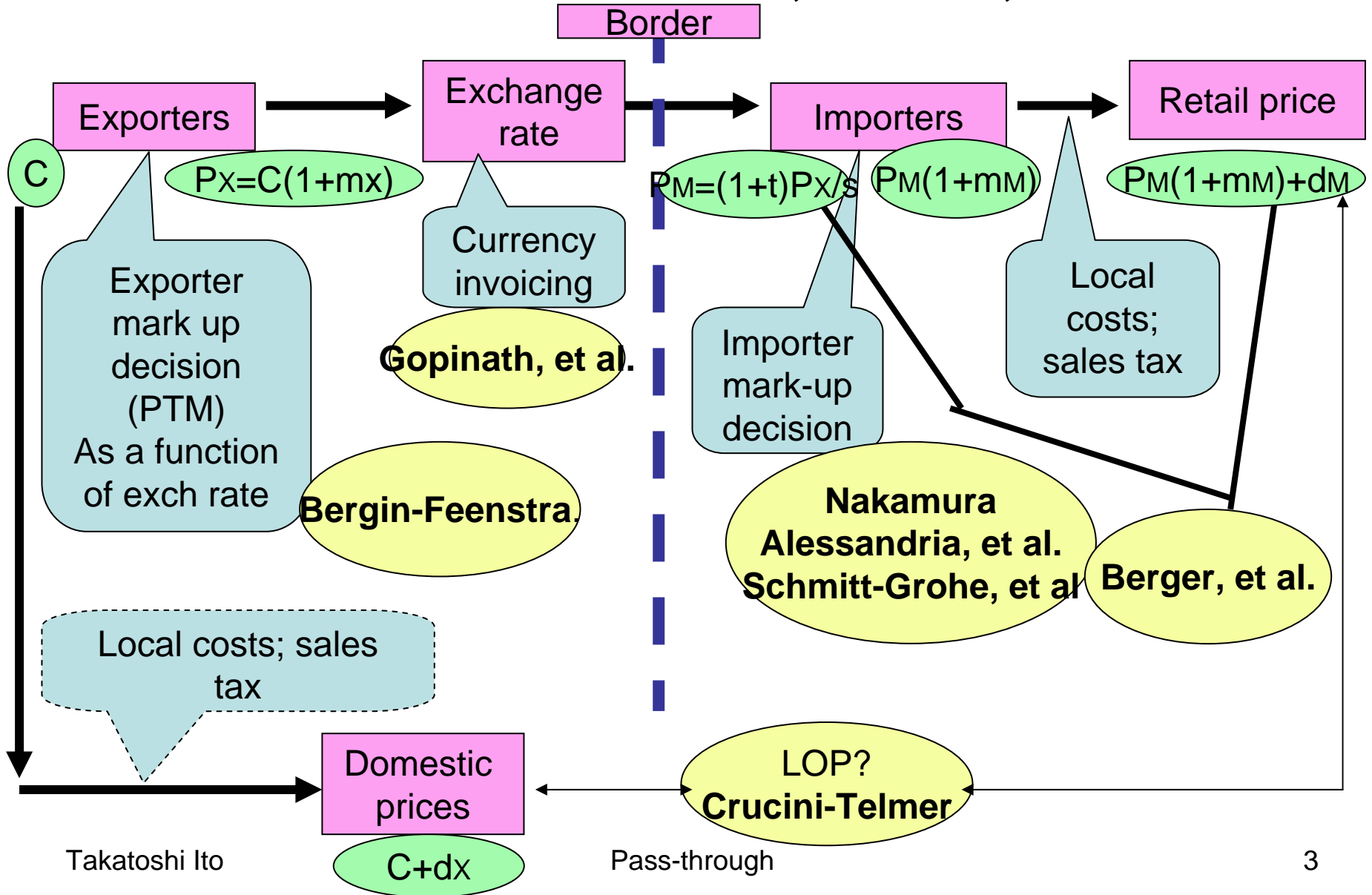
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# The distribution chain to explain PT

# Chain of distribution, PTM, and PT



# How to measure an entire PT?

- All papers explain only pieces of the pass-through
  - Can we see a whole picture? Exchange rate to retail price
    - Profit margin of exporters
    - Profit margin of importers
    - Profit margin of distributors of importing countries
  - Do we know dynamics?
    - Short-run and medium-run responses
    - Temporary vs permanent exchange rate changes

# Pass-through (PT) Questions

- (1) Why is PT an important question?
  - Effects of exch rate changes on trade balances (J-curve)?
  - Will exch rate changes help global imbalances to disappear?
  - Comparison of the past/current episodes
- (2) What Determines the PT magnitude
  - Micro: Exporters' behavior; Importers' behavior
  - Macro: Composition imports effects on import prices
  - Micro/Macro: Will LOP hold?
- (3) Implications to Monetary/ExRate policies
  - Macro: Will devaluations cause inflation?
  - Macro: Should inflation (due to devaluation) be accommodated?

# (1) Why is PT an important question?

- **Effects of exch rate changes on trade balances (J-curve)? Will exch rate changes help global imbalances to disappear?**
  - Bergin and Feenstra, China factor (China share increase lowers PT and J-curve)
  - Alessandria, et al. Lumpy trades (faster than J?)
- **Comparison of the past/current episodes**
  - Krugman, trade structure has changed and that may change PT; old trade theory may be more relevant now, while new trade theory was in 1980s.

## (2) Determinants of PT magnitude

- **Micro: Exporters' behavior; Importers' behavior**
  - Alessandria, et al. Lumpy Trade (Importers' inventory management)
  - Schmitt-Grohe, et al. Deep habits (marginal cost volatility > price volatility)
  - Nakamura, Coffee (markups are adjusted)
  - Berger et al. (Border prices and Retail prices)
- **Macro: Composition imports effects on import prices**
  - Bergin and Feenstra, China factor
  - Krugman, trade compositions matters for PT(?)
- **Micro/Macro: Will LOP hold?**
  - Crucini and Telmer, challenging a conventional wisdom (real exch rate volatility = nominal exch rate volatility)

## (3) Monetary/ExRate policies

- Macro: Will devaluations cause inflation?
- Macro: Should inflation (due to devaluation) be accommodated?
  - [Advertisement] Takatoshi Ito and Kiyotaka Sato, “Exchange Rate Changes and Inflation in Post-Crisis Asian Economies: VAR Analysis of the Exchange Rate Pass-Through”
  - Takatoshi Ito and Kiyotaka Sato, “Exchange Rate Pass-Through and Domestic Inflation: A Comparison between East Asia and Latin American Countries”
  - <http://www.rieti.go.jp/en/publications/summary/07060003.html>
- Macro: Currency denominations matter?
  - Gopinath, et al. (Currency choice matters for PT)



# Policy Implications: Low PT

- [True?] Low PT due to commodity effect?
- [Resilience] Companies (or a country) diversify sources of production and destination of sales, thanks to globalization. No need for intervention?
- [Good] The central bank does not have to worry about the exchange rate fluctuations (devaluation => inflation)?
- [Bad] Large exchange rate changes are needed to correct (accompany) global imbalances?
  - Large exchange rate changes needed if PT is low
  - China's \$-peg slows the adjustment over not only Chinese but other (Mexican) goods—China factor
  - Large devaluation would cause import collapse (Lumpy Trade, Krugman's \$ Plunge)