

Discussion of
**Pass-through of Exchange Rates
and Competition Between Mexico and China**

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Very topical

Two years ago, Manuel Ramos Francia, the Director General de Investigación Económica of the Banco de México asked me

What are we going to do about competition from China in U.S. markets?

Questions about (much of) the pass through literature from a general equilibrium viewpoint

Regressions of the form

$$\text{import prices} = \beta * \text{exchange rate} + \text{other stuff} + \text{error term}$$

What sense does it make to regress endogenous variables on endogenous variables?

What are the shocks driving the movements in the variables?

What is the model?

What is the theory of money?

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This paper answers all of my questions!

What I like about this paper

The authors construct an explicit general equilibrium model

They incorporate a cash-in-advance theory of money

They get away from the fixed mark-ups of Dixit-Stiglitz C.E.S.

They integrate well their theory and their data analysis.

Go and do likewise!

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I could stop here.

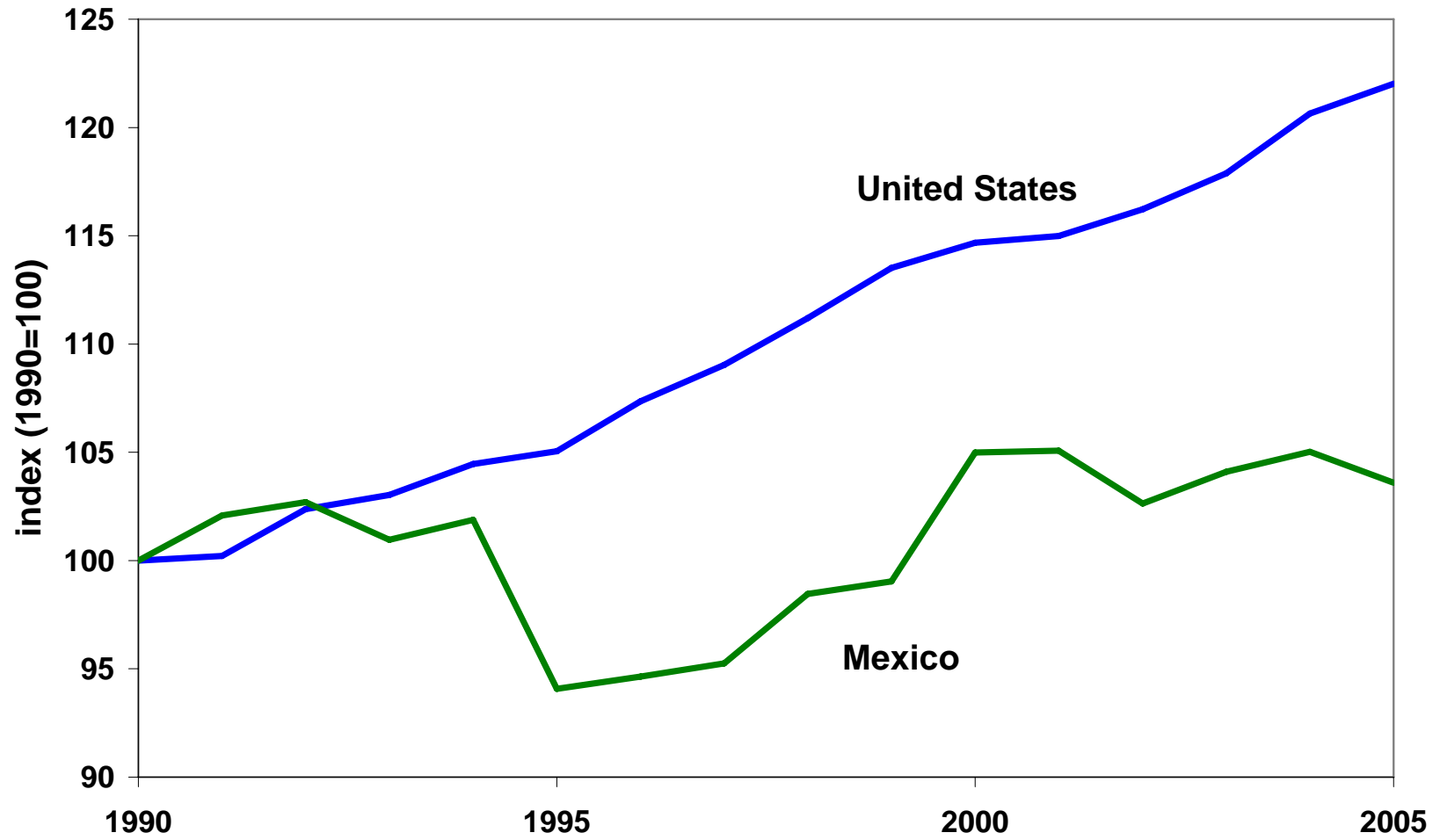
What are the shocks?

Money supply shocks

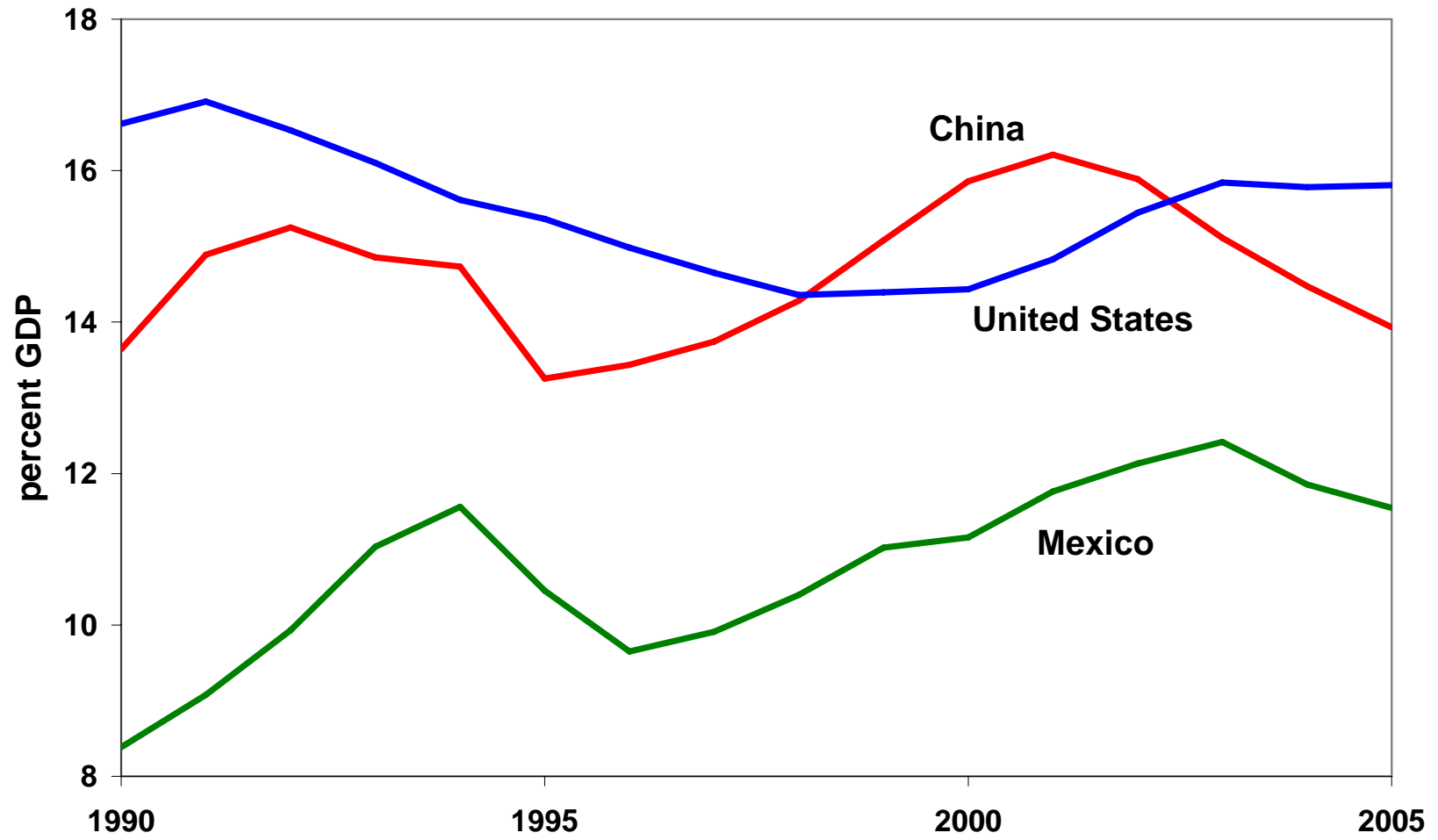
Productivity shocks

Fiscal shocks

Total Factor Productivity

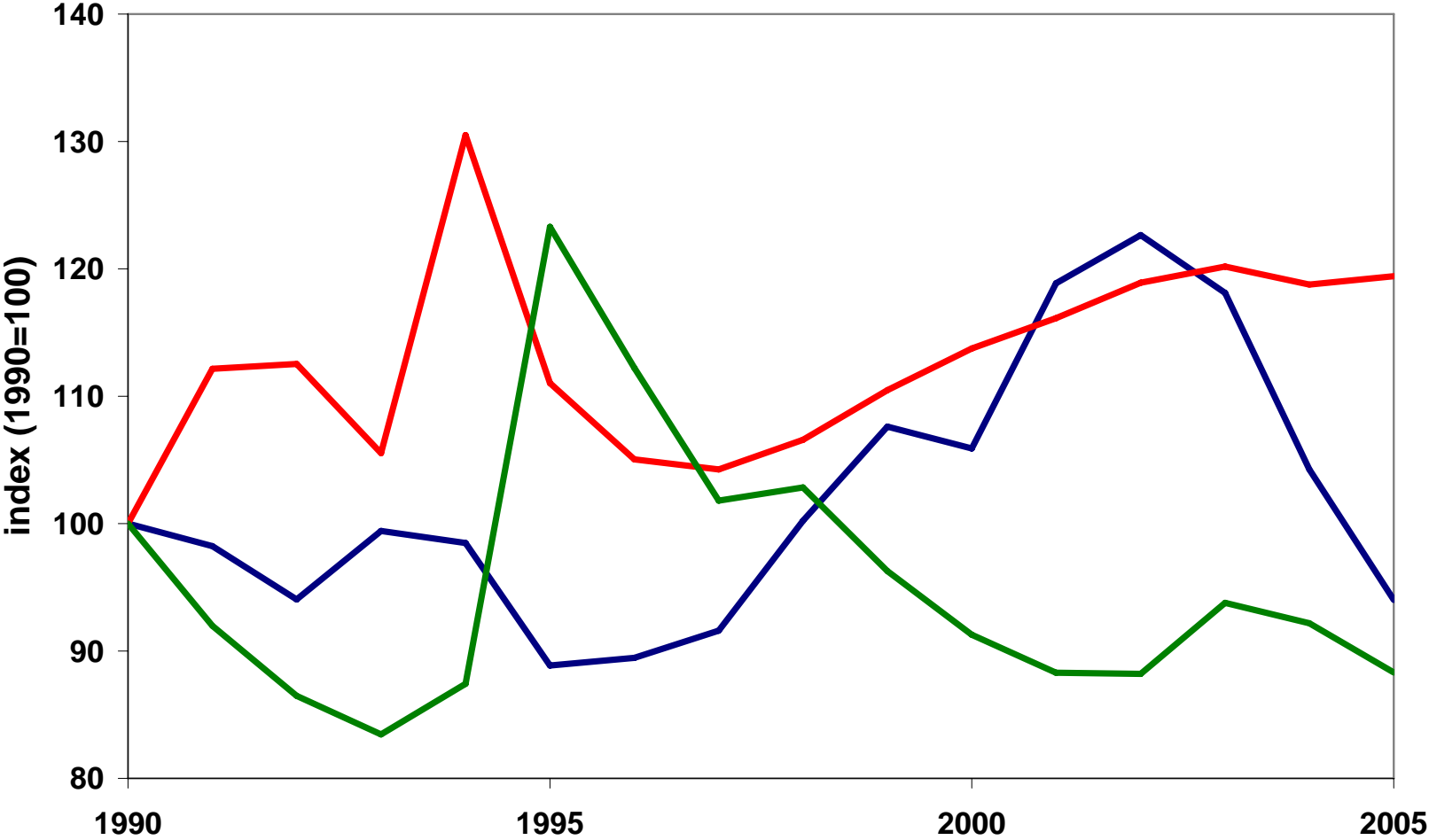


Government Consumption

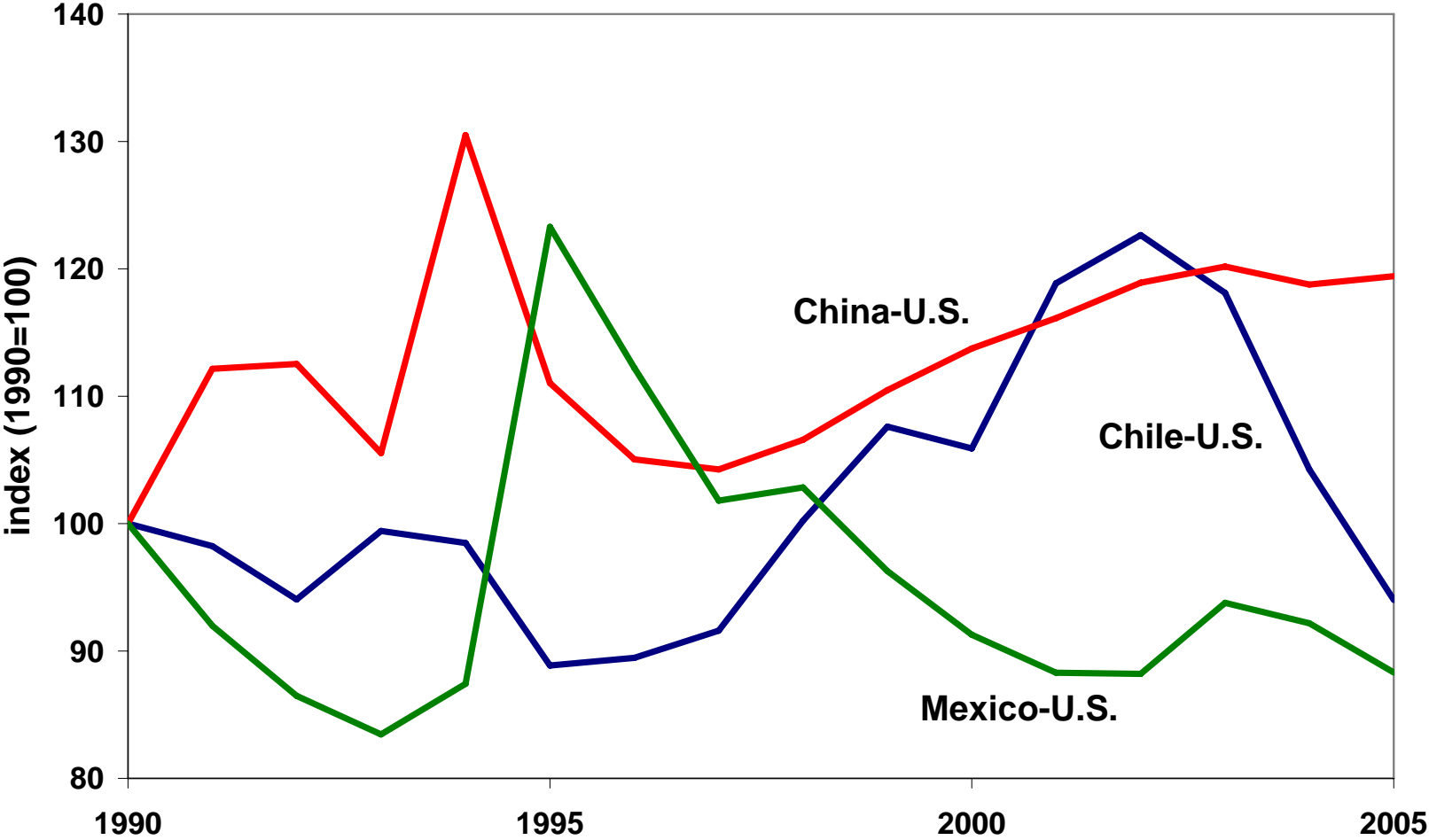


Whose exchange rate is fixed?

Real Exchange Rates

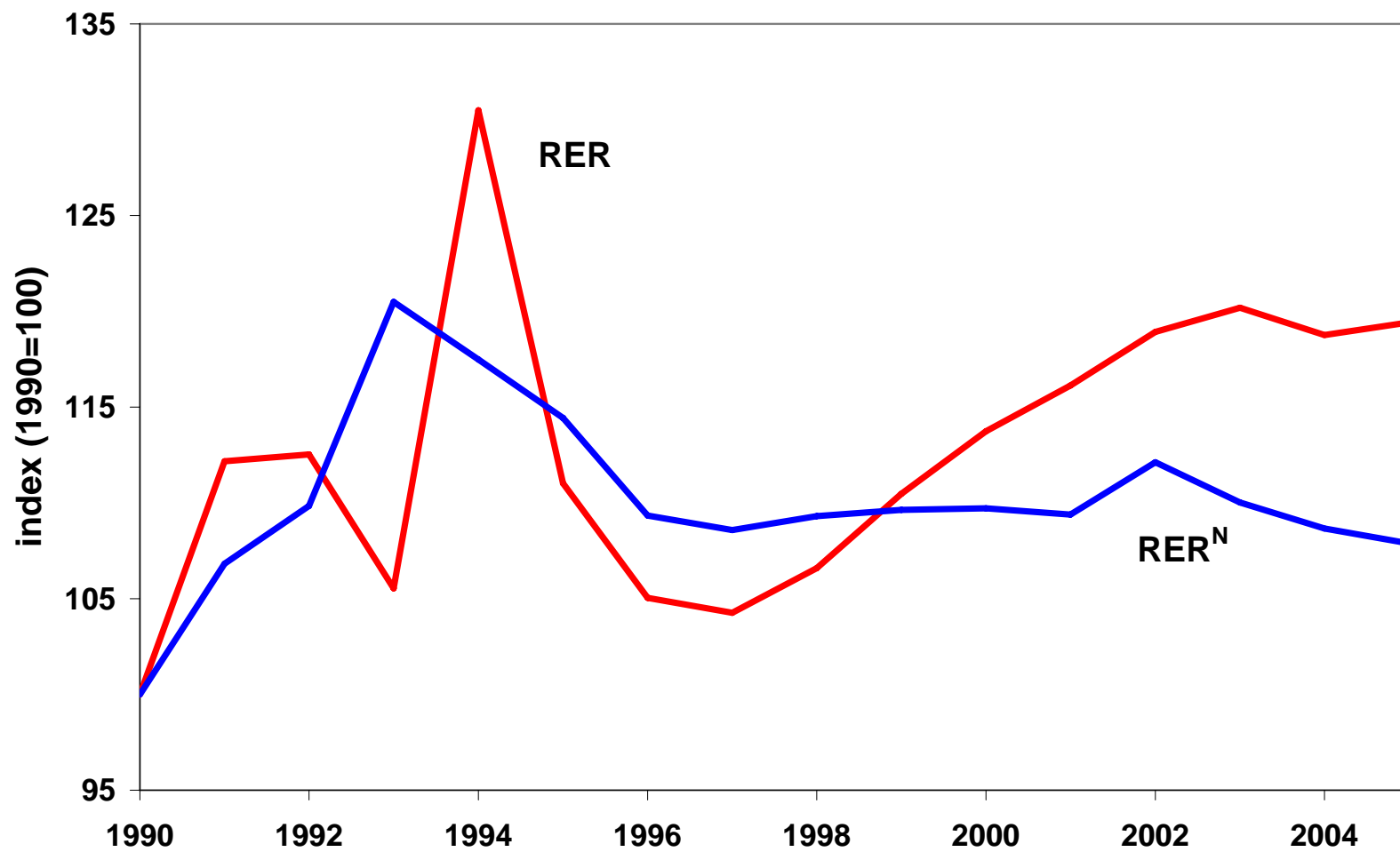


Real Exchange Rates



What about nontraded goods?

China-U.S. Real Exchange Rate



Why not more disaggregation of imports?

Lots of overlap in

8423: Trousers, breeches etc. of textile fabrics

7525: Peripheral units, including control & adapting units

Little overlap in

7810: Passenger motor cars, for transport of passengers & goods

8942: Children's toys, indoor games, etc.

The authors set up the cash-in-advance feature of their model so that money is a veil.

Question:

Why is there no distortion from consumption-leisure decision?

I have recently read an interesting paper on pass through with competition among different suppliers:

Eyal Dvir, “Globalization, Optimal Auctions, and Exchange Rate Pass-Through,” Harvard.