Retailer Markup and Exchange Rate Pass-Through: Evidence from the Mexican CPI Micro Data

Discussion

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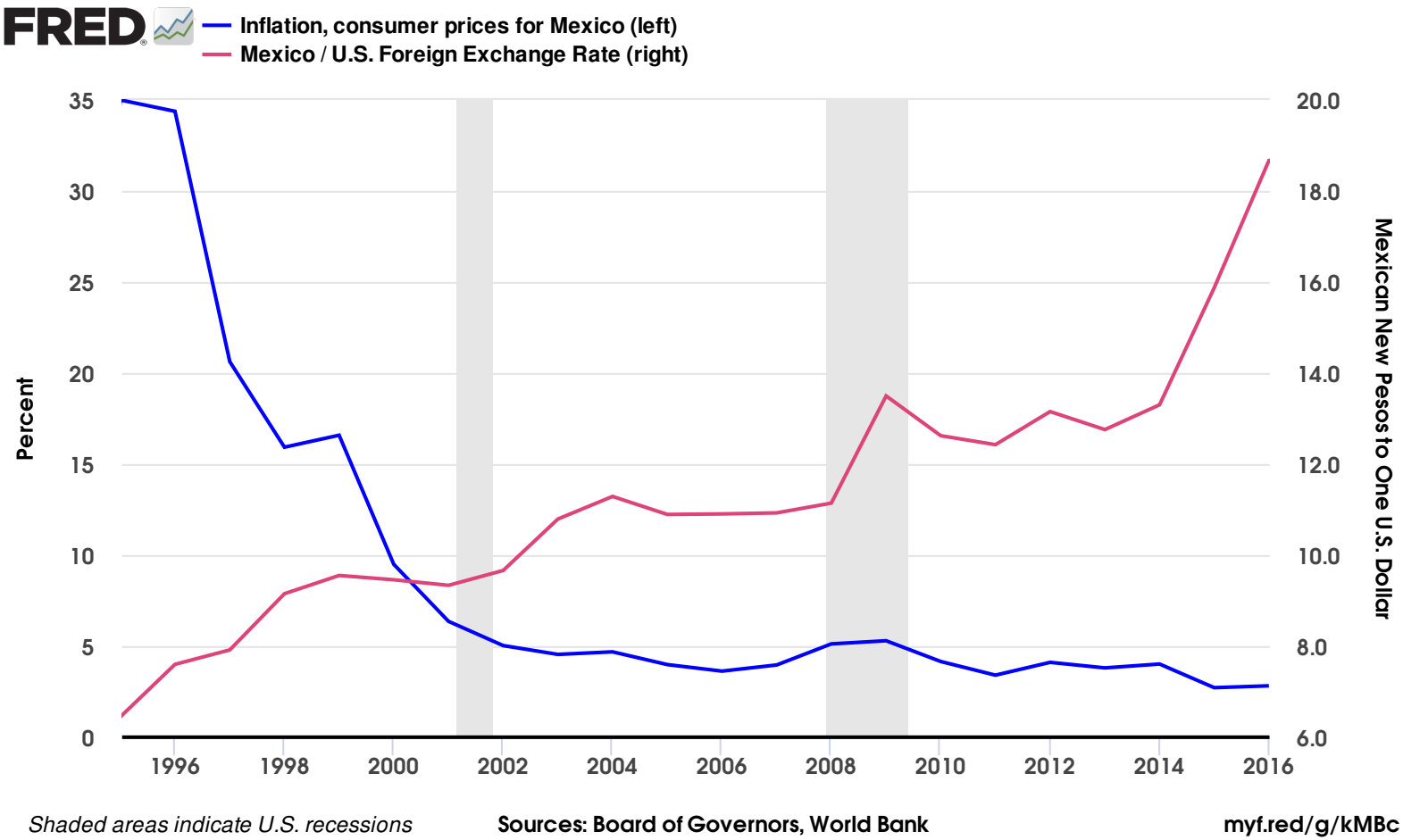
Inflation and Exchange Rate in Mexico



Plan for the discussion

- Overall: **Nice and relevant paper!**
- Plan for the discussion:
  - Summary of the paper
  - Relation to the literature
  - Assumptions of the model
  - Validating the hypothesis
  - Few additional exercises

Short summary of the paper

- Model with nested CES preferences to obtain markups for retailers
  - Assume fixed taste paramenters and flexible prices
  - Markups are more flexible when retailers share increase

- Attenuation bias in ERPT when the store type is not used as control

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- Then, estimate:

$$\Delta\tilde{p} = \theta\Delta\tilde{e}_t + \beta_{r\tau} + \alpha_t + \epsilon_{gr\tau t}$$

Comment 1: Benchmark results to previous literature

- Reproduce previous estimates and compare:
  - Current estimates are larger than those in the literature even after the correction (Kochen-Samano report 0.1% to a 1% increase in ER)
- Why not estimate MRPT?
  - Current specification: $d\log p_{gr\tau t} = d\mathrm{p}_{gr\tau t} - d\log p_{gr\tau t-h}$
  - Harder to compare to previous estimates/literature
  - Response to ER depends on each individual product price-setting

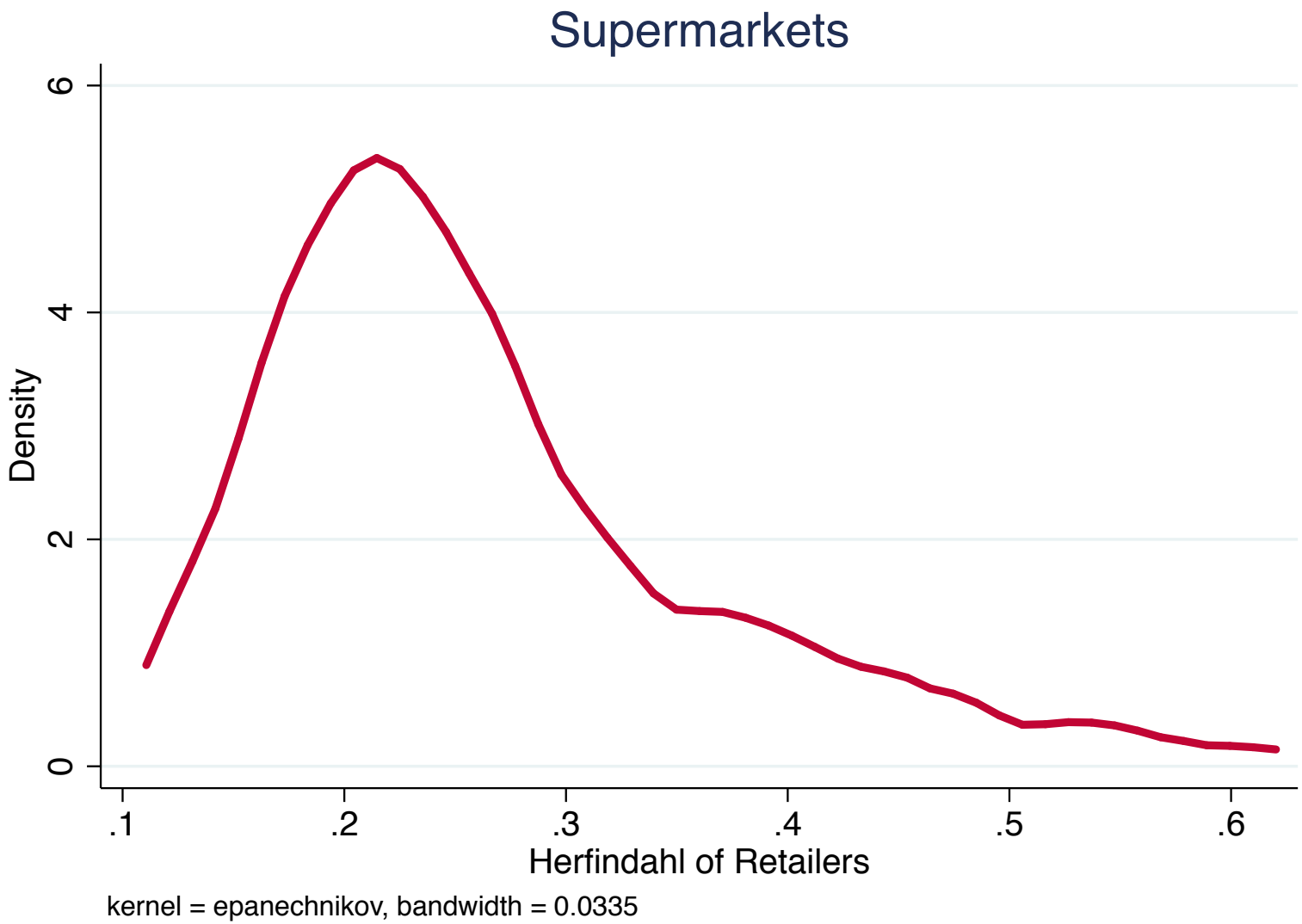
Comment 2: Controlling for the frequency of price adjustment (FPA)

- Partially proxies for changes in the importance of price-spell censoring, which can in turn potentially affect measures of ERPT
- Potential way of validating the hypothesis of the paper. From Gopinath-Itshoki we know:
  - Higher mark-up elasticity both lowers pass-through and FPA (reductions in curvature of profit function)

Comment 3: Estimating the impact of markups on ERPT without observing them

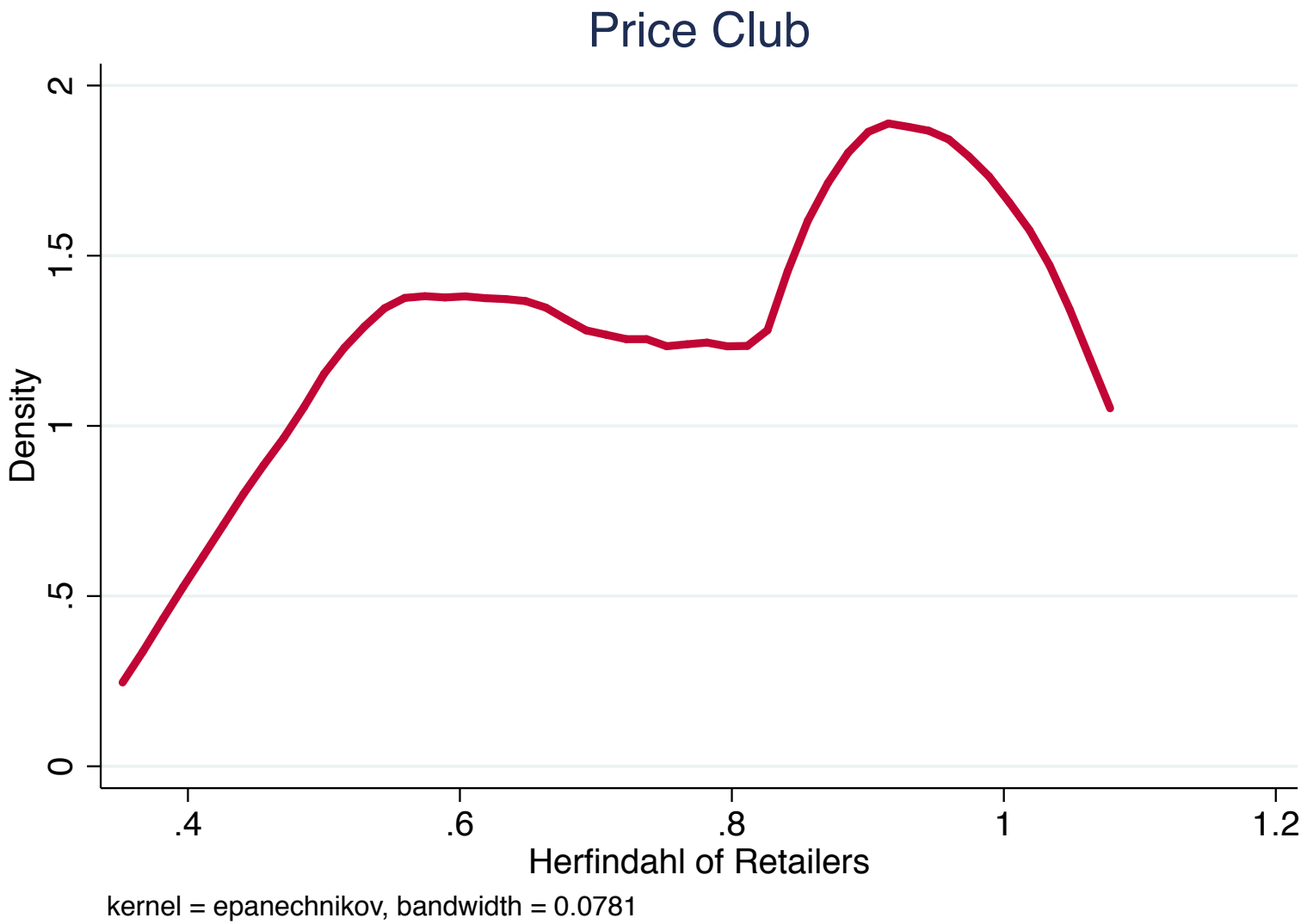
- Are the implied markups/shares of your estimation reasonable?
  - Report statistics and/or a plot of the distribution of the estimated fixed effects.
  - Approximate the retail concentration in a given city using DENUE. Report the correlation of estimated fixed effects for a given city with those approximated using DENUE.

HHI for retailers: Nielsen Data Mexico (Argente-Hsieh-Lee)



Retailers within store type have market power

For some types of store, high concentration in small cities



Comment 4: Other exercises

- Compute time varying ERPT (Berger-Vavra), does it change when Wallmart entered Mexico?
- During this period, and given your estimated pass-through, what does a change in ER implies for aggregate inflation?