Dollar Pricing Redux

Casas, Diez, Gopinath & Gourinchas

Discussion by

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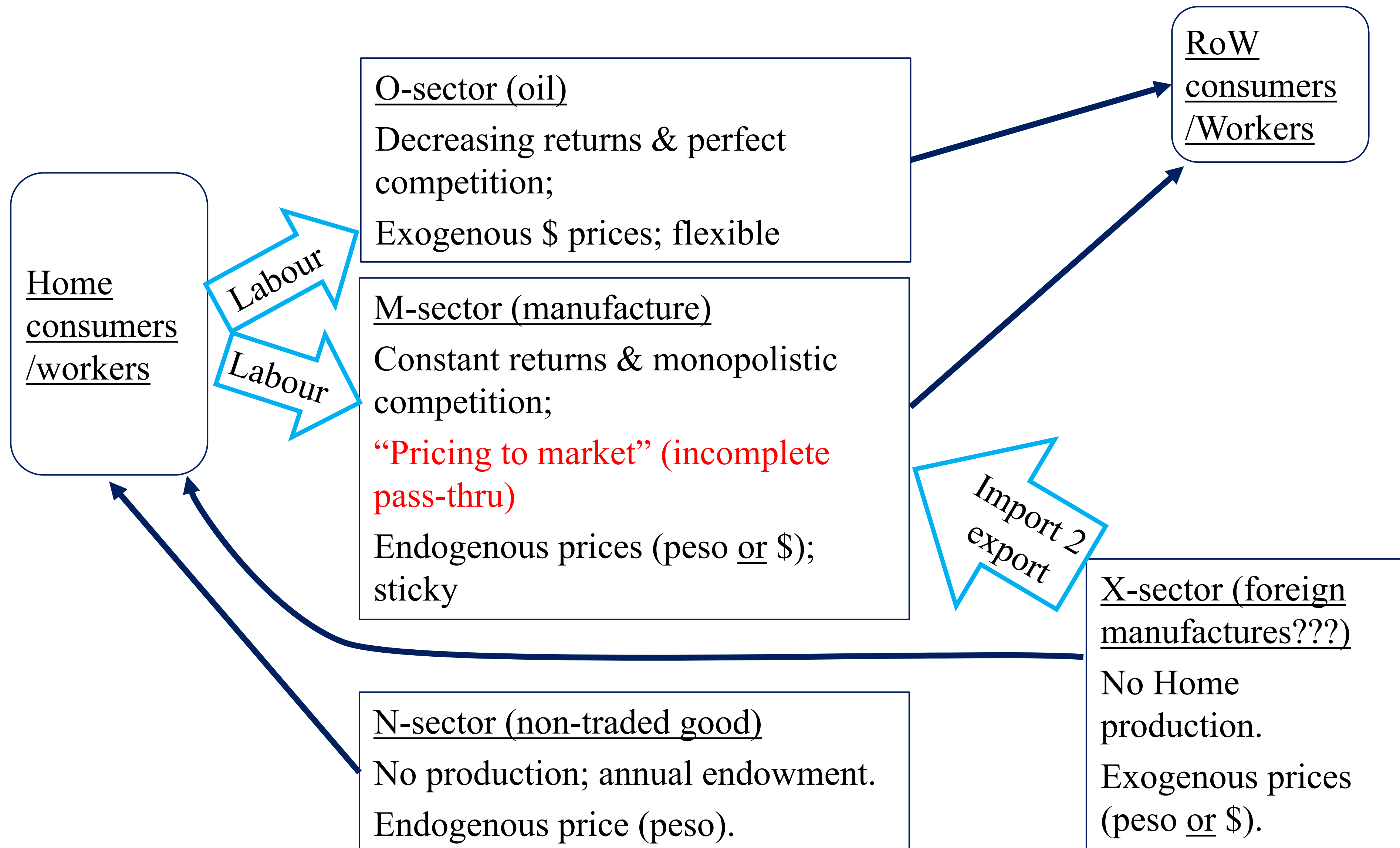
Model's trade economics structure



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Macro stuff

Mix & match: some ad hoc & some optimised.

- Ad hoc wage setting to slow adjustments.
- Ad hoc price adjustments in M-sector to slow adjustments and allow currency denomination to matter.
  - But N-, O- and X-sector prices fully flexible?
- Riskless, internationally trade bond to allow intertemporal smoothing.
- Eventually linearize around steady state.

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Results: Pass through & pricing

- M-firms find it optimal to absorb some of a cost shock (by lowering markup) to reduce loss of sales, thus pass-thru to export prices dampened.
  - This is called ‘pricing to market’; in trade, called ‘strategic complementarity’ here.
- If exports are unresponsive to costs, need bigger cost change to effect given BoP adjustment.
  - Wages/Real Exchange Rate must fall more to get same effect.
- If lots of “importing to export” necessary, then given depreciation has less impact on marginal cost (only wage costs affected), so less pass-thru to export prices.

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Pricing ‘regimes’

- Alternative assumption about currency of pricing; either in peso or in dollars.
  - NB: Currency matters only when have stickiness and shocks; with certainty or flexible prices, currency is irrelevant.

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3 currency pricing regimes

	Dollar pricing (LCP for exports; PCP for imports)	Local currency pricing (LCP)	Producer currency pricing (PCP)
O-sector prices in RoW	**$, exogenous**	**$, exogenous**	**$, exogenous**
M-sector prices in RoW	$, endogenous	**$, endogenous**	peso, endogenous
X-sector prices in Home	$, exogenous	peso, exogenous	**$, exogenous**
N-sector price	peso, endogenous	peso, endogenous	peso, endogenous

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Comments

- Is this a model of an emerging-market commodity exporter, or more general?
- Is this a technical fix to some funny assumptions about currency denomination, or something deeper?
  - e.g. Was the world Local Currency Pricing before, and now its dollar-pricing?

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Small comments

- Pricing to market is from 1980s
  - Krugman (1986)“Pricing to Market when the Exchange Rate Changes”, NBER WP1926.
  - Dornbusch (1985)“Dornbusch, R. (1987): “Exchange Rates and Prices,” AER.
- When you simulate model, why do you need all the ad hoc assumptions?
- Choice of currency is endogenous when firms can set prices; why exogenous?
- Notation is a mess!
  - *, f, h, T=X, etc.