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## Discussion of "Dollar Pricing Redux" by Casas, Díez, Gopinath and Gourinchas

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# Introduction

- ▶ "Macroeconomics of Small Open Economies Redux"
- ▶ Follow up to Gopinath - Jackson Hole (2015)
- ▶ Allocation role of exchange rates
- ▶ Comparison of pricing regimes: DP(FCP) versus LCP versus PCP
- ▶ Model-based comparison
- ▶ Granular trade data for Colombia - prices and quantities



# Pricing Regimes

- ▶ DP/FCP: export prices and import prices set in FC
- ▶ PCP: export prices set in LC, import prices set in FC
- ▶ LCP: export prices set in FC, import prices set in LC
- ▶ (Multi-country world: role of vehicle currencies)
- ▶ Price stickiness: allocative role of exchange rate shocks



# Model

- ▶ Export homogeneous good (commodity): price taker; produced using labour input
- ▶ Export manufacturing good (differentiated): price setter (subject to Kimball aggregator - strategic complementarities in pricing)
- ▶ Import consumption goods and intermediate inputs (used in manufacturing, together with labour input) - price taker
- ▶ Nontraded consumption good - endowment
- ▶ Main experiment: shocks to commodity export price
- ▶ Focus: response of prices and volumes in manufacturing



# Some Steady-State Properties

- ▶ Proposition 1: the greater is strategic complementarity in pricing and the larger the share of imported inputs in production, the lower is pass through of exchange rate changes to export prices of manufactures and the lower is the export volume response
- ▶ Proposition 2: the greater is strategic complementarity in pricing, the more volatile is the real exchange rate and consumption but the less volatile the manufacturing terms of trade and the volume of exports in response to commodity price shocks



## Main Results

- ▶ High pass through of exchange rates to import prices and export prices
- ▶ Exchange rate depreciation associated with significant decline in import volumes but limited increase in export volumes
- ▶ Model-based simulations
- ▶ Colombian trade data



## Alternative Set Up

- ▶ Price-taker in all export sectors and all import sectors (exogenous terms of trade)
- ▶ Endogenous output in nontraded sector (role for domestic demand): exchange rate shock operates on relative demand for imports versus nontradables
- ▶ Obstfeld-Rogoff 1996 textbook: SOE model (Lane JIE 1997)
- ▶ Clancy-Merola (2016): "Éire Mod: A DSGE Model for Ireland"



## Model Extensions

- ▶ Manufacturing sector: domestic demand margin
- ▶ Mixed pricing (LCP/PCP/DP): Chaudhri/Hakura (IMF, 2011)
- ▶ Consumption of imports - retail versions bundled with nontraded inputs (distribution sector)
- ▶ Alternative calibrations
- ▶ FDI channel of exchange rate adjustment
- ▶ Financial frictions: foreign currency debt; financing of imported intermediates



# Research Agenda

- ▶ Dynamics of export volumes (Fitzgerald-Haller; Spain; . . . )
- ▶ Exchange rate regime: flexible versus fix versus currency union
- ▶ Transfer problem: external adjustment and exchange rates
- ▶ Commodity exporters: optimal policies



# Conclusions

- ▶ Excellent paper
- ▶ Exciting research agenda
- ▶ Suite of SOE models