# Comment on
# "Costs of Foreign Currency Invoicing"

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# What the paper do?

- This paper presents a model of endogenous choice of import frequency and invoice currency to infer the costs of foreign currency invoicing.

- Using a very detailed dataset on Thai imports, this paper shows that those costs of average Thai importer range between 7.3% (1,500 USD) of one-time shipment value in our most conservative specification and 17.1% (3,600 USD).

- This paper also justifies that the high frequency of shipment and the low value per shipment is associated with the transaction invoiced in the buyer's currency.

# General Remarks

- This paper is clearly written. The model is nice enough to convey the main ideas of the paper.
- The authors adopted a very novel dataset to test the theory and estimate the cost of foreign invoicing.
- I really enjoy reading the paper.

# Major Comment 1: The Trade-off the Model

- The paper states that "the disadvantage of FCI to HCI is, straightforwardly, the existence of exchange-rate risk". This is intuitive.

- But what is the advantage of FCI to HCI? The paper's argument is that "the importers…manage the risk by utilizing forward exchange rats…this benefit is large enough to cover the cost of exchange rate risk management".

- If it is true, the banks may actually lose profit from providing forward exchange rate tool with the firm. Then why the banks still do business with the firms? Though the model do not include the bank's behavior, but the problem arises if we incorporate the bank's optimization problem.

# Major Comment 3: The Empirical Specification

- First, I think the author should also control for the firm dummies in the specification. As emphasized by the model the choice of currency and shipment frequency is endogenous to firm's characteristics. It is thus important to control for the firm-level dummies.

- Second, because the theoretical model highlights that the frequency of shipment and  choice invoice currency are both endogenous variables. It is thus important to deal with the endogeneity problem in the baseline regression.

# Major Comment 2: The exogeneity of z*

- The paper assumes that the importing price z* is exogenous.

- It abstracts away the bargaining between importer and exporter, which is the key of currency invoice in the real transactions. There are huge literature analyzing the relationship between exchange rate and importing prices, i.e. my paper with Mi Dai.☺

- More generally, the exchange rate and price are both also endogenous. Although we do not want the authors to extend the model to the GE case, but it is important to show that the results in the model is innocent to more general extensions.

# Major Comment 4: Calculating the Cost of FCI

- The forward premium is not equal to the change rate of exchange rate. (the Siegel’s Paradox)

- How is the reduced-form specification (24) fits the theoretical model? The author first adopts the calibration method, and then switch to a reduce-form analysis. Actually the calibration method is more consistent with a structural estimation.

# Major Comment 5: The Organization of the Paper

- Lastly, Section 5 and 6 are a bit disconnected.
  - Section 5 is a reduced-form analysis of the relationship between shipment frequency and invoice currency.
  - Section 6 is a structural estimates of the cost of FCI.

- I do believe the two parts are important but how are they connected with each other? Maybe the authors can find a way to better organize the two sections.

# Minor Comments

- 1. The author may reduce the length of the introduction part.
- 2. Is that possible to control for firm dummies in equation (22)?
- 3. The cost of FCI has many implications, not only those reflected in the firms' behavior. The author may want to narrow down the title of the paper.