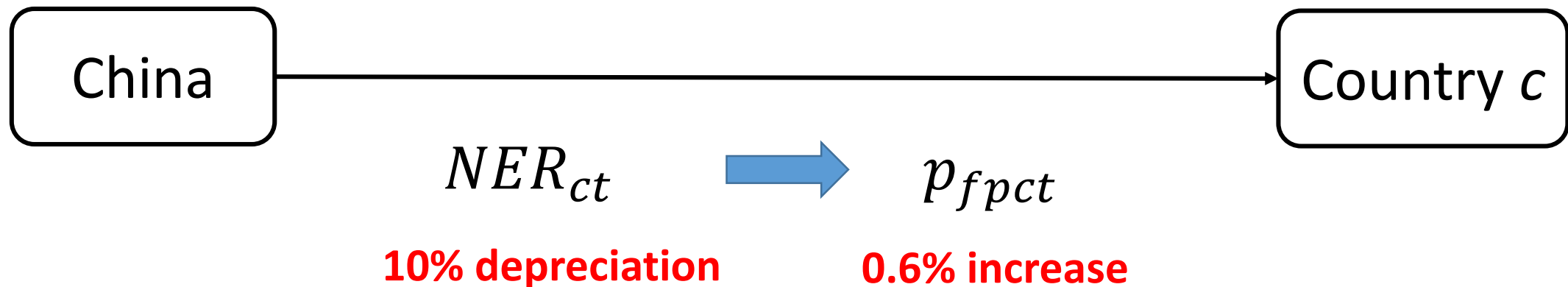


Comment on Dai, Wang and Xu (2014)

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Outline

- ERPT into export prices (denominated in RMB)
 - Highly disaggregate firm-product level data from China during 2000-2006.



Outline

- ERPT is larger for exports to high-income countries.
 - Exports to high-income countries
 - NER_{ct} (10% dep.) $\rightarrow p_{fpct}$ (1% inc.)
 - Exports to middle-income countries
 - NER_{ct} (10% dep.) $\rightarrow p_{fpct}$ (0.2% inc.)
 - Exports to low-income countries
 - NER_{ct} (10% dep.) $\rightarrow p_{fpct}$ (no impact)

Outline

- Recent models with the **product quality** imply...
 - The export prices of higher quality products **respond more** to exchange rate shocks.
- China mainly exports low quality products.
 - This explains **low degree of ERPT** (0.6%).
- Products exported to higher income countries are associated with **higher quality**.
 - This explains the finding in last slide.

Outline

- Estimation of the product quality

- $\ln x_{fpct} = \sigma \ln p_{fpct} + \phi_p + \phi_{ct} + \varepsilon_{fpct}$

ELS estimated by Broda
and Weinstein (2006)

Estimated Quality



- $Q_{ft} \equiv \text{average}(\varepsilon_{fpct})$: Firm-level average quality.

Outline

Table 3 Exchange Rate Pass-through and Quality

	(1)	(2)	(3)	(4)	(5)
Export Price	$\sigma(\text{median})$	$\sigma(\text{mean})$	$\sigma = 10$	50%	75%
NER	0.061*** (11.39)	0.061*** (11.6)	0.061*** (11.63)	0.047*** (6.22)	0.061*** (11.44)
NER*Quality	0.007*** (2.75)	0.007*** (4.29)	0.004*** (3.81)		
NER*High Quality Dummy				0.026*** (3.22)	0.041*** (2.8)
FE					
Country-Product	Y	Y	Y	Y	Y
Year	Y	Y	Y	Y	Y
R2	0.0281	0.0281	0.0281	0.0281	0.0281
Observations	6,617,465	6,617,465	6,617,465	6,617,465	6,617,465

Comment 1: Endogeneity

- **Endogeneity** btw quality and unit price
 - Kugler and Verhoogen (2012)
 - $p_o = \frac{\sigma}{\sigma-1} (\alpha\Phi)^{\frac{\alpha}{2\zeta}} \lambda^{\alpha \left\{ \frac{\alpha(\sigma-1)}{2\zeta} - 1 \right\}}$
 - $q = \left[\alpha\Phi \lambda^{\alpha(\sigma-1)} \right]^{\frac{\alpha}{\zeta}}$
- This can affect the estimation of the product quality.
 - $\ln x_{fpct} = \sigma \ln p_{fpct} + \phi_p + \phi_{ct} + \varepsilon_{fpct}$
- **Methods such as IV** can be examined for robustness.

Comment 2: USD invoicing

- Authors can examine **RMB/USD exchange rate** for robustness given the role of USD as major invoicing currency in international trade.
- If trades are **invoiced in USD**, export prices denominated in RMB can be elastic more to RMB/USD than to RMB/Destination Currency.
- This might be interesting especially when we examine **ERPT in Asia**.

Comment 2: USD invoicing

- Share of invoicing currency in Japanese exports (2014 Apr.-Sep.)

日本からの輸出 **USD invoicing** (単位：%)

世界	通貨名	米ドル	円	ユーロ	オーストラリア・ドル	元	その他
	比率	52.4	36.5	6.2	1.1	0.7	3.3
アメリカ 合衆国	通貨名	米ドル	円	ユーロ	英ポンド	カナダ・ドル	その他
	比率	85.6	14.3	0.1	0.0	0.0	0.0
EU	通貨名	ユーロ	円	米ドル	英ポンド	スウェーデン・クローネ	その他
	比率	51.8	29.9	13.6	4.1	0.4	0.1
アジア	通貨名	米ドル	円	元	タイ・バーツ	韓国ウォン	その他
	比率	53.2	43.1	1.2	0.8	0.5	1.2

Source: Japanese Customs website

(<http://www.customs.go.jp/toukei/shinbun/trade-st/tuuka.files/tuuka26fh.pdf>)

Comment 3: Timing of NER_t

- Beginning of t ? End of t ? Period average ?
- What is **theoretically the best** among them?
 - **Beginning of t** might be the best, if invoicing currency is RMB and RMB prices are determined after exchange rate changes are observed.
 - **End of t** might be the best, if invoicing currency is not RMB and RMB prices are exposed to unexpected exchange rate changes.