

Comments on Shimizu and Sato (2014)

By Chen Sichong

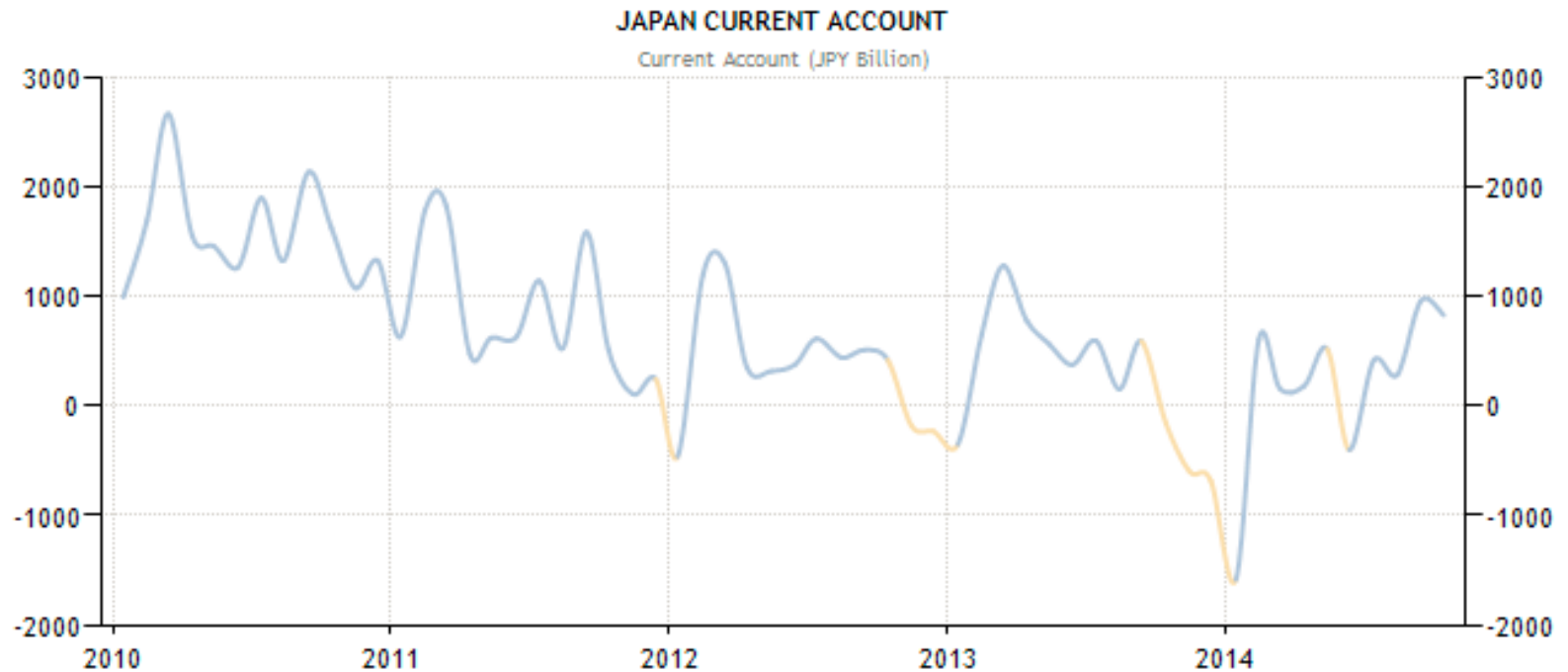
- Excellent work in explaining the factors that drive the dynamics of Japanese trade deficit.
- On the one hand, export price competitiveness has restored for the Japanese machinery industries.
- On the other hand, expanded overseas production network and exchange rate pass-through behavior are responsible for the slow recovery of trade balance.
- It is extensive and robust.

Motivation

- Any recent work in the literature suggests that yen depreciation was expected to solve trade balance issues in Japan?
- In other words, is it a scientific issue worth studying? Need justifications and discussions!

- Casual observation seems to suggest the opposite.
- In a longer run, a sharp appreciation of the Japanese Yen against US dollar did not remove the trade surplus.
- In 1970s, one dollar exchanged for 360 Japanese Yen. Now, one dollar is worth for only around 80 - 120 Yen.
- In other words, Yen has appreciated a lot. But, Japan still runs a trade surplus with the US today.
- Exchange rate is just one of the many factors that drive the trade balance between two countries. Other factors can also play a big role.

- $S - I = CA$ (trade balance & income balance)



Motivation

- Abenomics? Any direct relation to the exiting work?
- Aim at examining the relationship between Abenomics and Yen depreciation?
- Digression: probably, structural reforms should be at the heart of Abenomics, instead of yen depreciation.

Motivation

- While it seems that the authors have done a lot of empirical analysis about the potential reasons responsible for the Japanese trade deficit, it has a lack of focus.
- Why not delve into the details one by one and re-organize this work into three separate papers?
- The title could also be more informative.

Some technical details on time-varying
parameter model of pass-through equation

- Approaches that address parameter instability in the literature also including:
 - Regime-switching models
 - Structural breaks
- Any advantage of time-varying parameter model of pass-through equation?

- The author should be aware that Eq. (7) implies that coefficients follow a random walk.
- Theoretically, they might drift to arbitrarily high or low values, hence causing variables to be non-stationary.
- You must impose some restriction on the system equation.
- Alternatively, make some defending arguments for this specification:
 - 1. perform a horse race between random walk model and models with auto-correlated coefficients, and compare estimation errors.
 - 2. high frequency of observations can mitigate concerns.

- Any empirical support for time-varying model?
- For example, is there existing large, significant and consistent improvement in the accuracy of model fitting if we take time-varying coefficients into consideration.
- Any measurement of the degree of time-varying coefficients?

- Two dimensions of model uncertainty? The choice of independent variables (pass-through or no pass-through?) and the degree of coefficients time-variation.
- How important is the model uncertainty with respect to the time variation in coefficients (time-varying parameter), compared to other uncertainty components: the model uncertainty with respect to the choice of independent variables, estimation uncertainty, observational variance.