Comments on "Asymmetric Exchange Rate Pass-Through in Japanese Exports: Application of the Threshold Vector Autoregressive Model" by Thi-Ngoc Anh NGUYEN and Kiyotaka SATO

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Summary of the paper

- Analyze the asymmetric behavior of the exchange rate pass-through (ERPT) in Japanese exports between the yen appreciation and depreciation regimes.
- Use a threshold VAR model.
- Estimated time-varying thresholds of exchange rate levels.
- Distinguished depreciation and appreciation regimes by comparing the NEER-contract and the threshold.
- Found larger export price response (PTM) in the yen depreciation regime than appreciation regime.
- The degree of PTM in the depreciation regime declined in recent years.

Interesting topic, methodology and results

- A vast literature on ERPT.
- Discussions on the asymmetry of ERPT (Pollard and Coughlin,2003; Madhavi, 2002)
  - Generally found that ERPT is lower under home currency appreciation than depreciaton.
- This paper finds the opposite for Japan.
- New method: TVAR.

Comment1

- The paper uses the threshold method to distinguish appreciation and depreciation regimes.
- Estimated thresholds θ_t
- $E_t > \theta_t$ depreciation regimes; otherwise appreciation regimes.
- Why not directly use $\Delta E_t > 0$ or $\Delta E_t < 0$ to distinguish regimes?
- What's the advantage of using the threshold methods?

Comment2

- The calculation of exchange rates.

$$NEER^{contract} = (1)^{\alpha}(E_{yen/\$})^{\beta}(E_{yen/Euro})^{\gamma}$$

- Can this exchange rate accurately reflect true effective exchange rate swings?
- e.g. if Japan trades with US, Europe, Korea and China.
- It is possible that $E_{yen/\$}$ and $E_{yen/Euro}$ did not change but $E_{yen/RMB}$ and $E_{yen/won}$ changed.
- The change of $E_{yen/RMB}$ and $E_{yen/won}$ will lead to changes in overall export price index in Japan.
- Why not use industry-specific nominal effective exchange rates?

Comment3

- The results on asymmetry are different from the evidence in some other countries (Pollard and Coughlin,2003; Madhavi, 2002).
- Some explanations for such difference would be very helpful.
- Further analysis on why PTM declined in recent years for the depreciation regime.

Comment4

- Is it possible to conduct further analysis based on export price data by industry & country?
  - Cleaner identification than using effective EER.
  - Provides the possibility of accessing how ERPT depends on destination country characteristics(e.g. competitiveness, income levels)