

# Comments on “Importer Heterogeneity and Exchange Rate Pass-through”

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# Overview

## ■ ***Aim of this paper***

- Is importers' heterogeneity important for exchange rate pass-through (ERPT)?
  - Bernanke et al. (2009) and Kugler and Verhoogen (2012) have found heterogeneous importers' behavior.
  - Focus on the role of heterogeneity of importers in ERPT.

## ■ ***Methodology***

1. Theoretical predictions from Diamond-Mortensen-Pissarides type search model with heterogeneity of importers and exporters.
2. Test of the predictions and obtain empirical evidence with Chinese transaction-level trade data.

# Theoretical prediction

## Individual Bargaining Effect

- A **larger importer** is more likely to be associated with **lower** ERPT since they have an incentive to pay higher import prices.

## Composition Effect

- Considering heterogeneity of exporters, inefficient exporters are more likely to search for **large importers** because of their high marginal costs.
- Matchings with more inefficient exporters lead to **higher** ERPT.

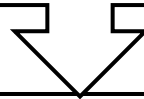
**Which is stronger of the two???**

# Main result and Contribution

## Empirical evidences

- ERPT for the higher import share group is significantly **less** than the lower group.
- In short, importers with a large market share significantly **lower** ERPT.

**The empirical results support the theoretical predictions.**



*“Heterogeneity of the importers can help rationalize low ERPT at the aggregate level”*

# Comment & Question

- Does the customs data contain trades in denominated RMB or other currencies?
  - Footnote 8: “The import value in the original custom data is in the US dollars. We convert it into value in RMB...”
- Traded in denominated RMB, the importers are prevented from exchange rate changes.
  - The reason a larger importer is more likely to be associated with lower ERPT may be related to higher bargaining power on invoice currency.

# Comment & Question

- Volatility of the invoice currency may have an impact on price setting behavior of importers.
  - High volatility of a bilateral exchange rate for the invoice currency seems to lead to an increase in the frequency of price changes.
- They may pay careful attention to volatility of currencies.