Exchange Rate Pass-Through and Importers' Credit Constraints: Evidence from China

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Outline

Summary

Key research question

- How do Chinese import prices respond to exchange rate changes? (Exchange rate pass-through, ERPT)
- Do financial constraints play a role?
- Why?

Approach

- Panel regression using Chinese firm-product-(importing) country-level data

Results

- ERPT is ≈ 0.73.
- ERPT is positively correlated with financial constraint measures.
- ERPT is negatively correlated with import sourcing diversity measures.

Comment 1

General comments

- Interesting paper
- A nice contribution to the literature

Key insights

- Both financial constraints and input sourcing diversity matter.

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Key estimate in the regression is $\beta = 1 + \Phi$.

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Overall, it might be useful to provide a unified framework to guide your analysis.

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Table 7.4 Short-Run and Long-Run ERPT Using Aggregate Indices

		U.S.		Japan		Italy		U.K.		France		Germany		Canada		Switzerland	
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Import Price Index																	
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Short run	Narrow NER	0.20	0.05	0.75	0.07	0.53	0.05	0.37	0.04	0.40	0.09	0.43	0.05	0.75	0.05	0.13	0.03
	Broad NER	0.20	0.04														
Long run	Narrow NER	0.51	0.08	0.71	0.12	0.53	0.16	0.87	0.08	0.97	0.13	0.64	0.10	0.80	0.12	0.47	0.09
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2. Currency choice matters. Gopinath, Itskhoki and Rigobon (2010) show that ERPT for dollar is 0.25 but for non-dollars is 0.95.