

Exchange Rate Pass-Through and Expenditure Switching Revisited?

Discussion of Sarah Gertler (2025)

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The views expressed here do not necessarily reflect the position of the Bank of England.

A Great Paper

- ▶ **Empirics:** *low pass-through \Rightarrow limited expenditure switching*
 - US firm-level trade data: condition on firm, country, product, time-varying factors
 - Instrument FX shock + lots of robustness

	PCP	LCP		PCP	LCP
Price-FX elasticity	1.0***	0.3***	Quantity-FX elasticity	-0.4**	-0.5**

- ▶ **Theory:** *'import buyers' with sticky prices dampen adjustment \forall pass-through*
 - ...but less so under low pass-through due to persistent effects on mc
 - \Rightarrow Low pass-through can generate *larger* quantity-FX elasticity than high pass-through
- ▶ **Policy Implications:** *mon. pol. transmission stronger under low pass-through*
 - \Rightarrow FX policy corrects greater demand-side inefficiency under high pass-through

Me, Considering My Discussion



My Comments

#1 Invoicing vs. Rigidities: Which Rigidities Matter?

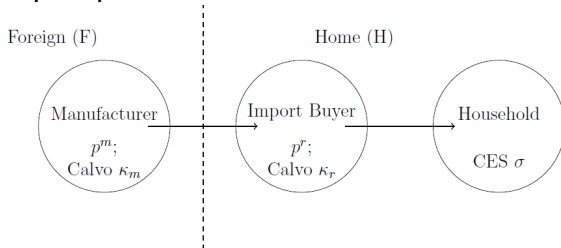
#2 Pedantry: 'Testing' for Persistence?

#3 Building Out Policy Implications

#1. Lots of Rigidities

Model

Import process:



- + Home seller with Calvo κ_h
- κ_r (κ_h) estimated
- κ_m from Gopinath & Rigobon (2008)

Empirics

Convincingly demonstrate role of κ_r :

Table 4: Quantity-Exchange Rate Elasticity (Heterogeneous Effects)

	(1)	(2)
	US Exports “PCP”	US Imports “LCP”
Low Buyer Rigidity	-0.6241*** (0.2016)	-0.6197** (0.2758)
High Buyer Rigidity	-0.2092 (0.2282)	-0.5793*** (0.1795)
Difference	0.415* (0.231)	0.04047 (0.2138)

...but unclear on role for κ_h / κ_m ?

- Lots mopped up with FE, so more a suggestion for drafting/model clarification

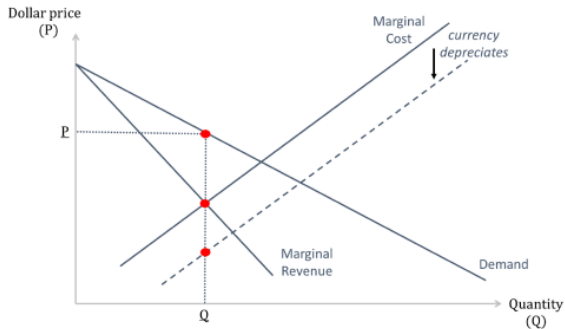
#1. Lots of Rigidities...But Which Ones Really Matter?

“[L]ow exchange-rate pass-through to dollar prices is not informative about price stickiness. The price response to exchange rates is small when demand elasticities are high, even with flexible prices: low pass-through is an equilibrium result, not evidence of a nominal friction.”

[McLeay & Tenreyro, 2025 QJE]

#1. Lots of Rigidities...But Which Ones *Really* Matter?

Perspective of US Imports (LCP) from McLeay & Tenreyro (2025)

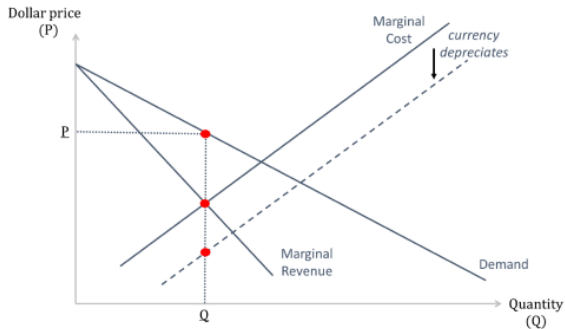


Sticky-price Monopolist Facing Depreciation

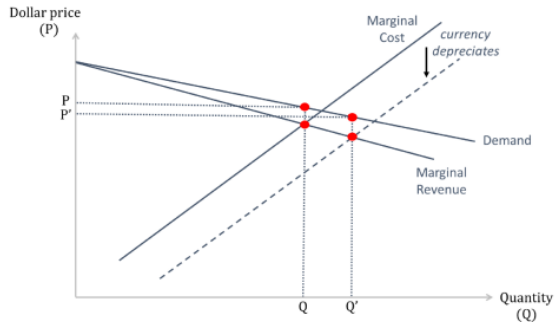
Costs (in USD) ↓, but P and Q unchanged

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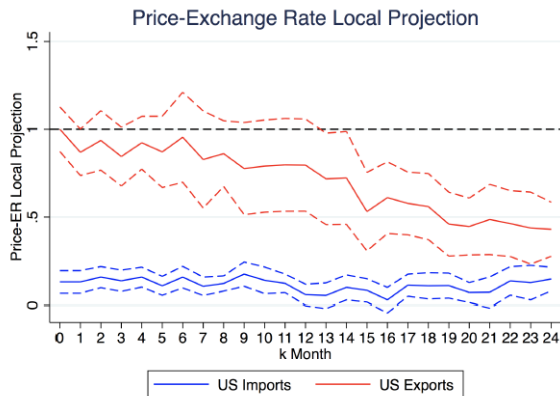


Sticky-price Monopolist Facing Depreciation
Costs (in USD) ↓, but P and Q unchanged



Flex-price, High-El. Monopolist Facing Dep.
Costs (in USD) ↓, P ↓ slightly, and quantity ↑

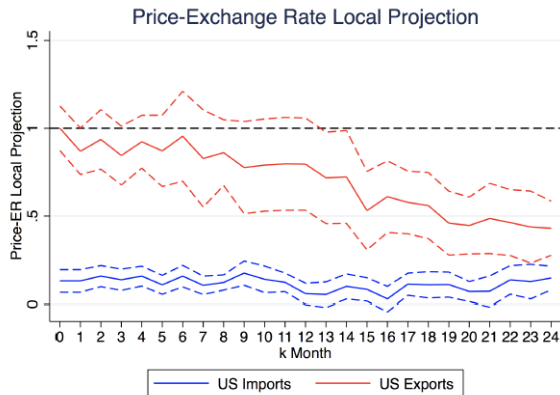
#2. (Even More) Convincing Evidence on Persistence



Persistence of ‘LCP’ IRFs key evidence for model mechanism

“Over time, pass-through decays in an approximate AR(1) form for the high pass-through environment of PCP in US exports. In contrast, pass-through is more persistent (i.e. does not fall over time) in the low pass-through environment of LCP in US imports.”

#2. (Even More) Convincing Evidence on Persistence



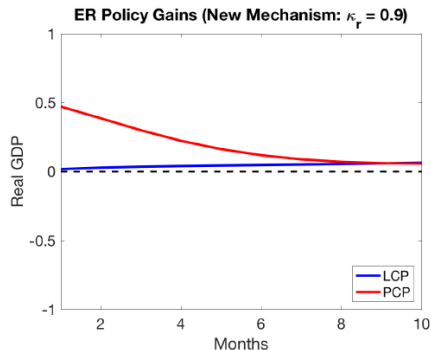
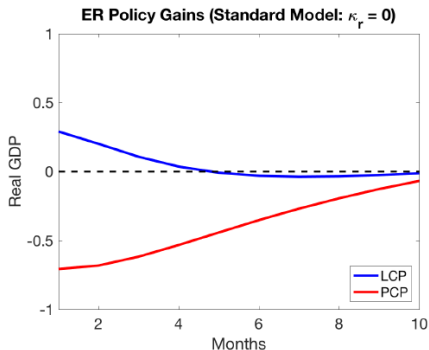
Current test puts faith in horizon-by-horizon coefficients and (slightly narrowing) confidence bands

Suggestion: Test it directly with parametric form? Robustness to less charitable (long-horizon) inference?

#3. Building Out Policy Implications (Further)

- ▶ Here: 'Import buyers' create demand-side inefficiency with high pass-through (PCP)
- ▶ Previously: PCP (+ other conditions, incl. complete markets) = 'Divine coincidence'

[Corsetti et al., 2010 Handbook]



#3. Building Out Policy Implications (Further)

- ▶ Here: 'Import buyers' create demand-side inefficiency with high pass-through (PCP)
- ▶ Previously: PCP (+ other conditions, incl. complete markets) = 'Divine coincidence'

[Corsetti et al., 2010 Handbook]

- ▶ Here: Test is limited: Taylor Rule with FX, comparing monetary shock transmission
- ▶ Suggestion: back to CM, show 'import buyers' break divine coincidence

? How will policy implications differ vs. pricing-to-market? [Corsetti & Dedola, 2005 JIE]

In Sum

- ▶ Great (and thorough) paper...
- ▶ ...a tough one to discuss, as a consequence!

My comments:

- #1 Clarifying salience of rigidities valuable in light of recent literature
- #2 Directly test 'persistence' could keep econometrics police of your back
- #3 Scope to broaden out policy implications (in separate paper)