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Discussion of *"Exchange-Rate Regimes and the Behaviour of Exporters"*

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The views expressed herein do not necessarily reflect the views of the Czech National Bank

Paper in a Nutshell

Focus of the paper:

1. Impact of a change in exchange rate regime (exchange rate volatility) on firms' pricing decisions:
   - selected European car markets 1970-1999

Methodology:

A. Develop a simple model
   - incorporate exchange rate variance into firms' pricing decisions
   - An elegant way to study an impact of second moments on the first moments in a (non)linear framework

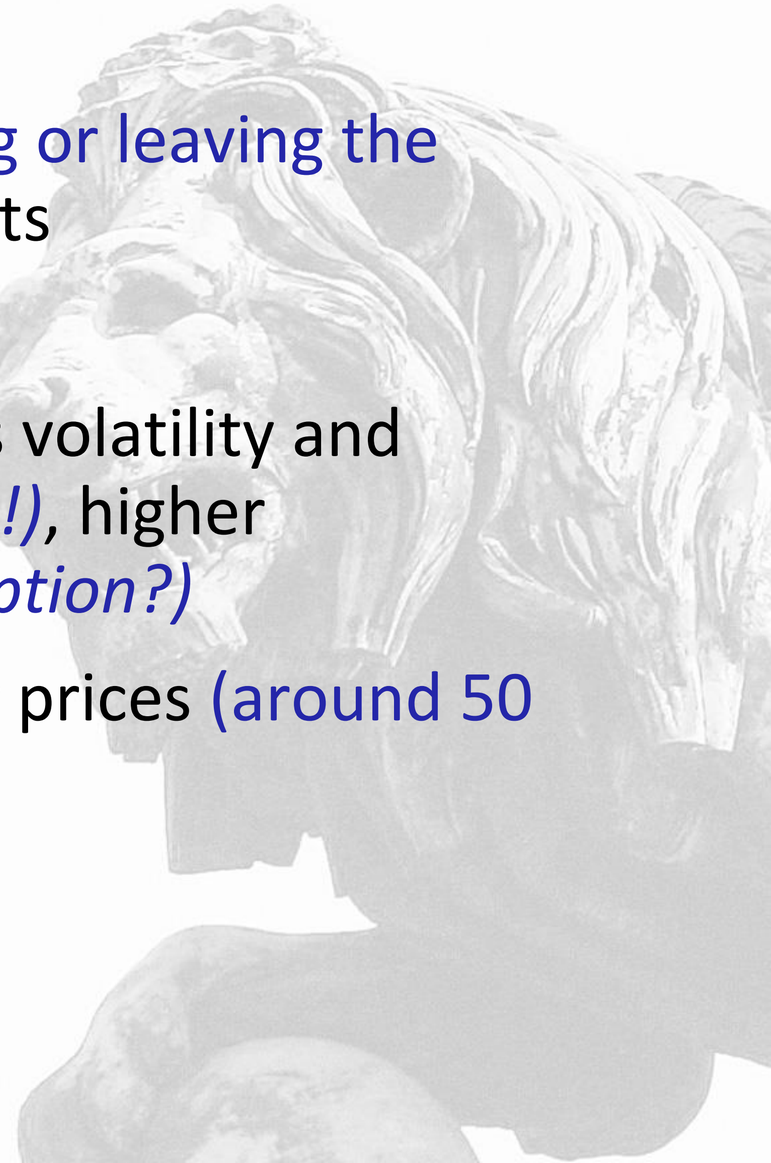
B. Estimate exporters' Phillips curves

Data: Rich dataset by model-country-year entry

Findings: Higher exchange rate volatility means lower and more dispersed mark-ups

Comments: Methodology

1. Role of nominal rigidities (country-model effects)
2. Intensive versus extensive margins (firms entering or leaving the market), increasing competitiveness in the markets
3. Large exporters are also large importers:
    - Exchange rate stabilization means lower costs volatility and lower hedging expenditures *(higher mark-ups!)*, higher investment *(absent from the model by assumption?)*
    - Low exchange rate pass-through to consumer prices (around 50 % for large exporters, Amiti et al 2014, AER)



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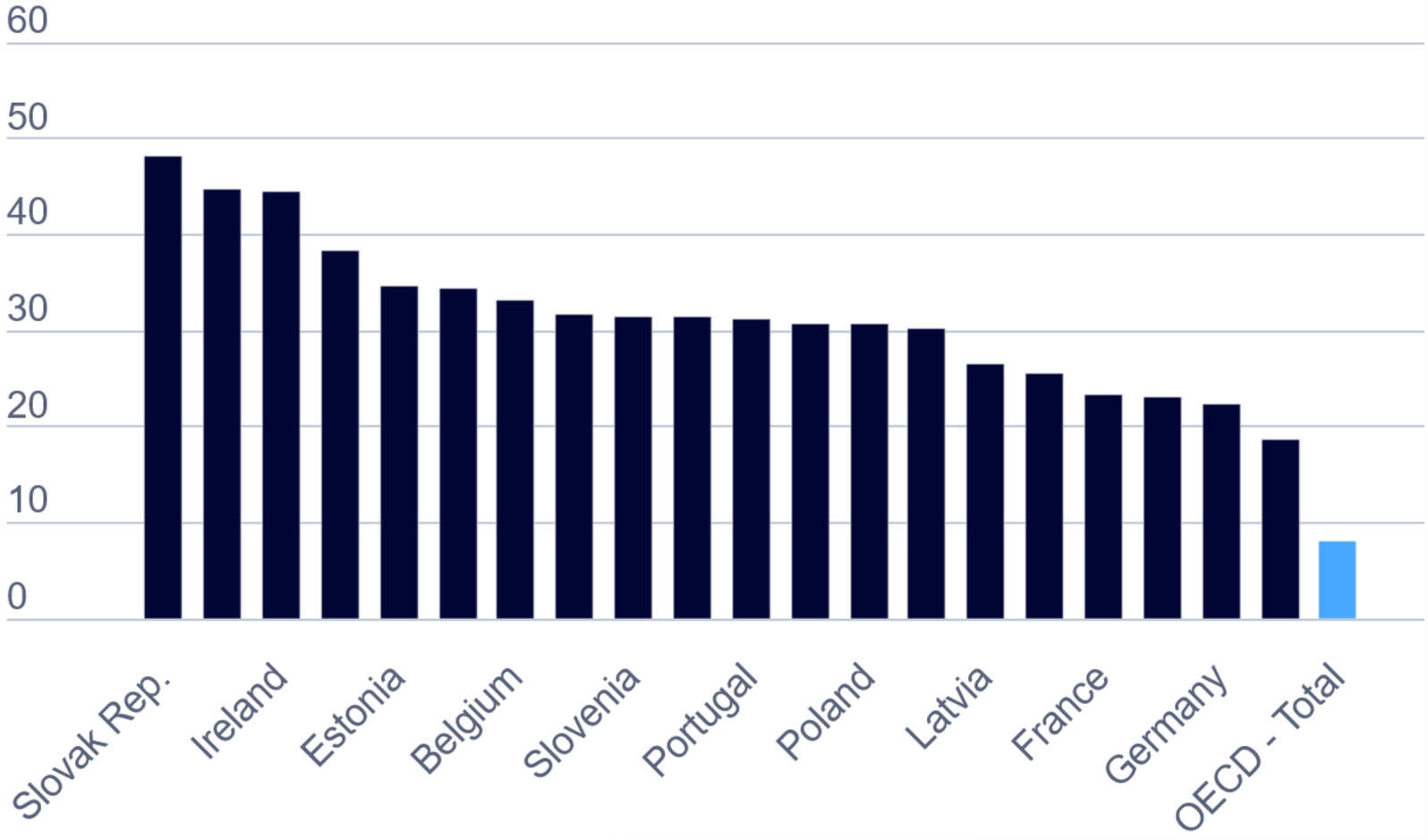
Import content of exports

Total, % of gross exports, 2020



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Amiti et al (2014, AER) for Belgian manufactures

TABLE 1—EXPORTER AND IMPORTER INCIDENCE (*percent*)

	Exporters and/or importers	All exporters
Fraction of all firms	32.6	23.7
Among them		
exporters and importers	57.0	78.4
only exporters	15.8	21.6
only importers	27.2	—

Notes: The data include all manufacturing firms. The frequencies are averaged over the years 2000–2008.

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Comments: Results

1. Impact of productivity in exchange-rate pass-through:
   - Calin-Vlad Demian, Filippo di Mauro (2018): *a higher concentration of highly productive firms … lowers the overall sensitivity of (sector/country) exports to exchange rate changes. Higher mark-ups dispersion.*
2. Role of model specific demand elasticities (Skoda vs Bentley), international groups vs individual factories
3. Car markets heterogeneity *(were there any changes in taxes, market regulations, political establishment?)*
4. Role of macroeconomic factors (any slowdown/overheating in the sample?), monetary policy...
5. Does the level at which the exchange rate is fixed matter?

Policy relevance and future research

- How general are the results for other industries?
- What are the implications for consumer prices? What can you say about other aspects of firms' behavior (investment, industry growth)?
- Do exporters also change prices in the domestic markets (effect on CPI and PPI)? (changes in costs, price differentiation etc.)
- Using Czech exchange rate floor 2013-2017 as an example of reducing the volatility:

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Literature

- Calin-Vlad Demian, Filippo di Mauro, “The exchange rate, asymmetric shocks and asymmetric distribution’”, International Economics, Volume 154, 2018.
- Amiti, Mary, Oleg Itskhoki, and Jozef Konings. “Importers, Exporters, and Exchange Rate Disconnect.” The American Economic Review 104, no. 7 (2014)