

Pricing-to-Market: Evidence from Plant-Level Prices

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Summarize

- Ask: how do export/domestic prices covary with NER?
 - Use novel, detailed plant-level dataset
 - Observe $Y_{it}, K_{it}, L_{it}, M_{it}, P_{it}^{IRL}, P_{it}^{UK}$
- Find P_{it}^{UK} do not react to Δ UK/IRL NER
- Observe P_{it}^{IRL} : establish 0 pass-through due to variable markups (not costs)
- Key contribution relative to existing work

Fix ideas

- Home currency marginal cost: ω_{it}
- Home currency price: p_{it}
- Foreign currency price: p_{it}^*

- Home markup:

$$\mu_{it} = \frac{p_{it}}{\omega_{it}}$$

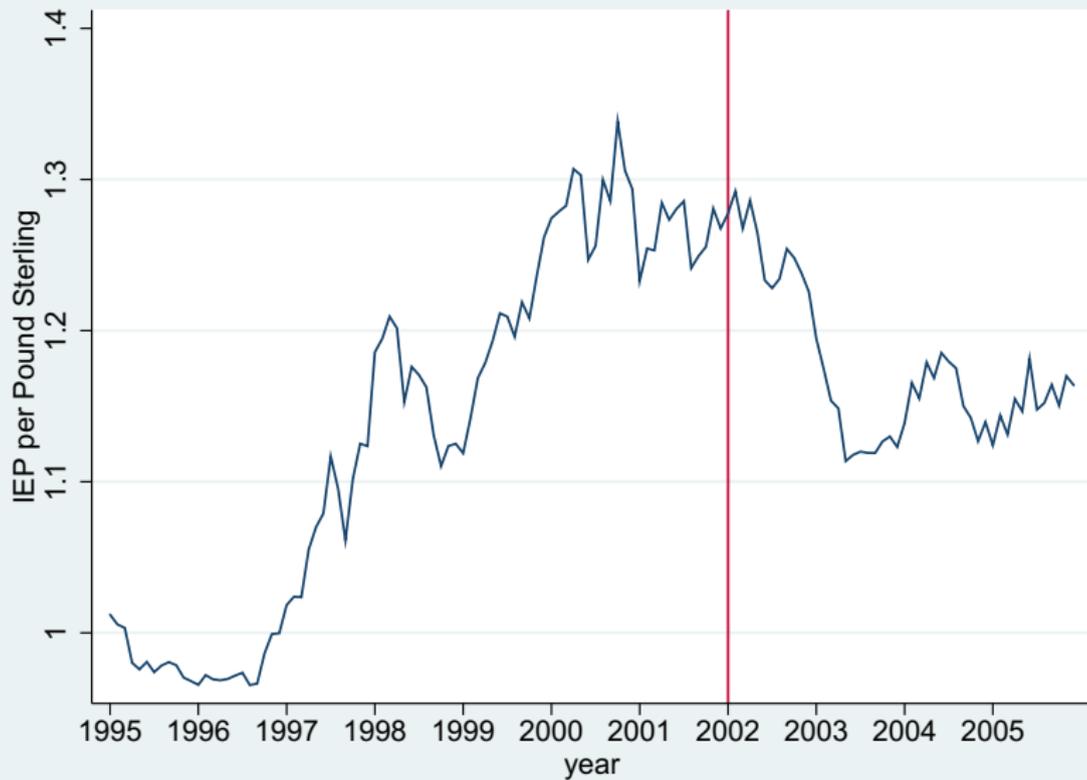
- Foreign markup:

$$\mu_{it}^* = \frac{p_{it}^*}{\omega_{it}/e_t}$$

- Establish:

- p_{it}^* do not move with e_t (conditional on price changes)
- μ_{it}^*/μ_{it} comoves one-for-one with e_t

Relative Markups = NER



Comments

- Dynamic responses?
 - some, but little in paper, $\Delta_{t-1}e$.
 - impulse responses to Δe would be useful.
 - perhaps adjustment delayed, but complete eventually.
 - some time-series plots would be useful as well

Comments

- Specific to exchange rates?
 - use data to estimate marginal cost.
 - do prices respond to other sources of variation in costs?
 - evidence from Dutta et. al (2002)

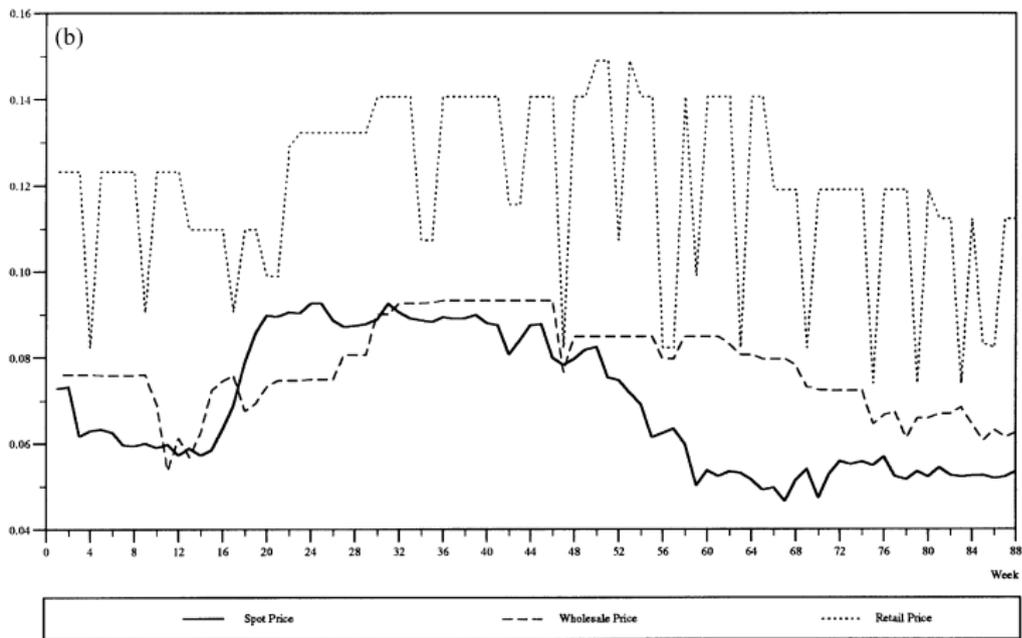
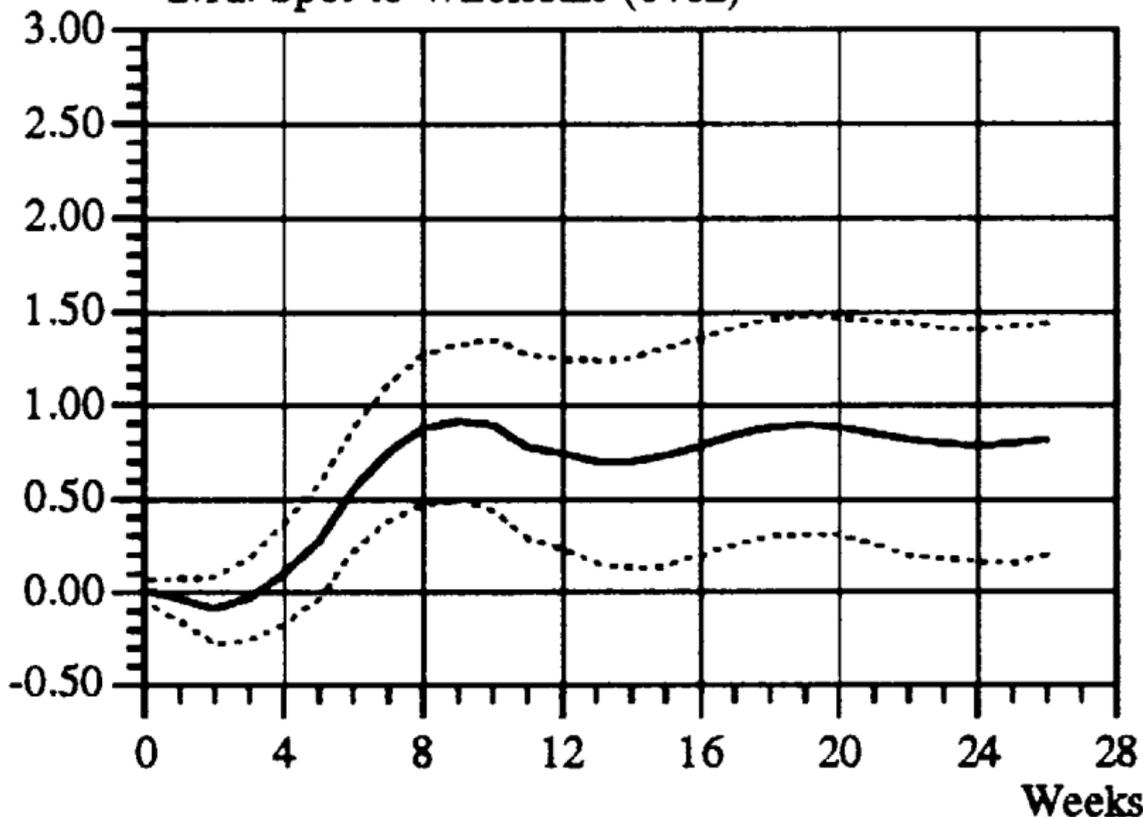


Fig. 1b. Cost and price series of frozen Heritage House, 12oz (dollars/oz).

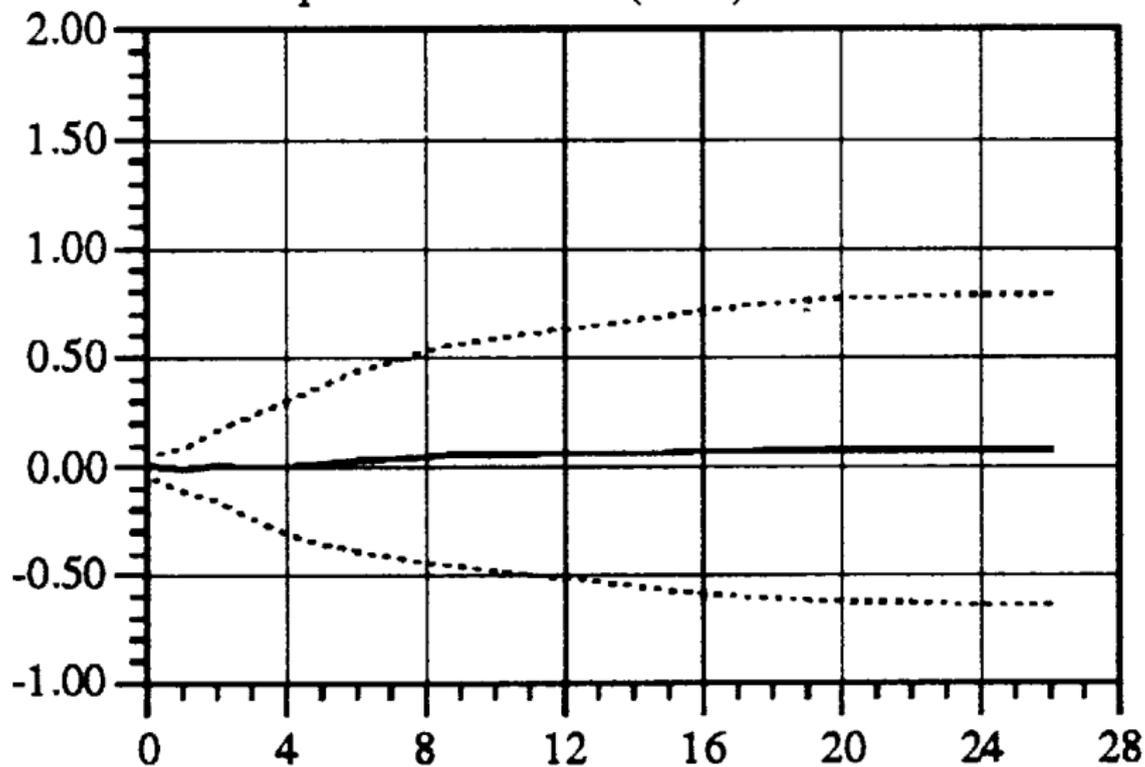
Refrigerated Tropicana

2.1a: Spot-to-Wholesale (64oz)



Frozen Minute Maid

2.5a: Spot-to-Wholesale (12oz)



Comments

- Interpretation?
 - argue evidence desired markups move one-for-one with e
 - assumes only friction: menu costs of changing prices
 - implies variable demand elasticities
 - long-term contracts that specify price plans?
 - insurance against exchange rate risk

Comments

- A lot more you can do with data:
 - Exploit link between prices and quantities
 - Do contracts fix both prices and quantities?
 - Are prices allocative?
 - If quantity restrictions: $p + \mu$ relevant object
 - Kryvtsov and Midrigan (2010): Use data on inventories to show sticky wholesale costs \neq sticky shadow valuation

Goldberg and Hellerstein

