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 $\Delta$ 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: $\omega_{it}$
- Home currency price: $p_{it}$
- Foreign currency price: $p^*_{it}$

- Home markup:
  \[ \mu_{it} = \frac{p_{it}}{\omega_t} \]

- Foreign markup:
  \[ \mu^*_{it} = \frac{p^*_{it}}{\omega_t/e_t} \]

- Establish:
  - $p^*_{it}$ do not move with $e_t$ (conditional on price changes)
  - $\mu^*_{it}/\mu_{it}$ 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 $\Delta e$ would be useful.
  - perhaps adjustment delayed, but complete eventually.
  - some time-series plots would be useful as well
• 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