Discussion by Marios Zachariadis

University of Cyprus

Sep 2010
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That aggregate real exchange rates appear more persistent than international relative micro prices, consistent with different types of shocks driving these.
Contribution

- That aggregate real exchange rates appear more persistent than intl relative micro prices, consistent with different types of shocks driving these.

- Adjustment processes towards LOP and PPP work through distinct mechanisms in the goods and foreign exchange markets respectively.

- Responses to volatile micro shocks dominant in micro data but cancel out in aggregate data where macro shocks dominate.

- Half-lives for micro prices in response to macro shocks resemble PPP persistence.

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Focus on bilateral prices b/w the US and 20 cities.
Specifics

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\[ q_{ij,t}^k = e_{ij,t} + p_{ij,t}^k \] for 98 traded goods and aggregate \( q_{ij,t} \equiv \sum_{k=1}^{K} q_{ij,t}^k \).
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\[ q_{ij,t}^k \]: In response to idiosyncratic shocks, resembles \( p_{ij,t}^k \) dynamics. Goods price does most of the adjustment.

\[ q_{ij,t} \]: In response to any shock resembles \( e_{ij,t} \) dynamics. 

Half lives for \( q \) and \( q_{ij,t}^k \) similar in response to \( e \) or \( p \) shock; differ in response to \( p_{ij,t}^k \) shock (\( q_{ij,t}^k \) adjusts twice as fast.)

Variation in \( q_{ij,t}^k \) (\( q_{ij,t} \)) mainly due to \( p_{ij,t}^k \) (\( e_{ij,t} \)) shocks.

Estimation of \( q_{ij,t}^k \) or \( q_{ij,t} \) on good-specific and macro deviations shows response to aggregate deviations similar for \( q_{ij,t}^k \) and for \( q_{ij,t} \).
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- Identification strategy.
- Estimation uncertainty: 95% confidence intervals are (BGW Table 8) 0.56 to 1.72 yrs for micro, 1.01 to 3.17 yrs for macro.
- Use of mean group estimator;
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Comparison of half-lives in years with BGW Table 8 (disaggregated data)

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Comparison of half-lives in years with BGW Table 8 (disaggregated data)

mean group estimator, traded goods, 20 cities sample:

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