Discussion of:

Dominant Currency Paradigm:
A New Model for Small Open Economies

by Casas, Diez, Gopinath, and Gourinchas

Brent Neiman
University of Chicago

AEA Meetings 2017

Puzzles/Issues to Start With

- Short-run pass-through to U.S. imports is low
- Short-run pass-through to U.S. exports is higher
- Long-run pass-through to U.S. imports remains low after adjustment, varies across firms

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  U.S. imports are LCP, high degree of stickiness
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Frameworks nesting this all well developed and articulated in large literature, including Burstein and Gopinath survey.

Then Comes DCP

- Identified (VCP) as empirically common in Goldberg and Tille (2008, 2016) in Canada
- Dollar not ubiquitous, but important in Chile (Cravino 2014)
- Dollar's worldwide prevalence (Gopinath 2016)
- In this paper, authors go from there and model DCP world where SOE trades with dollar and non-dollar countries.
- Model has two key complicating factors discussed above:
  - Variable markups (Kimball 1995 prefs)
  - Intermediate inputs (priced with stickiness)

What Do We Need Model For?

- Authors emphasize five results:
  1. Terms-of-trade (p^E/p^I) are stable
  2. Dominant-currency passthrough is high
  3. Non-dominant currency passthrough is low
  4. Depreciations do little to exports
  5. Depreciations do lots for imports
- Qualitatively, all these are pretty close to assumptions (they impose Calvo parameters).

What Do We Need Model For?

- Authors emphasize five results:

  1. Terms-of-trade (p^E/p^I) are stable
     Clear, since imports and exports are sticky in dollars

  2. Dominant-currency passthrough is high
     By construction, import prices move one-to-one with the dollar

  3. Non-dominant currency passthrough is low
     Import prices only move one-to-one with the dollar

  4. Depreciations do little to exports
     Export prices do not move relative to export market currencies

  5. Depreciations do lots for imports
     Domestic prices depreciate relative to imports

- But quantitatively, model chooses DCP. I'm convinced and now we have a tool. But power will come from applications.

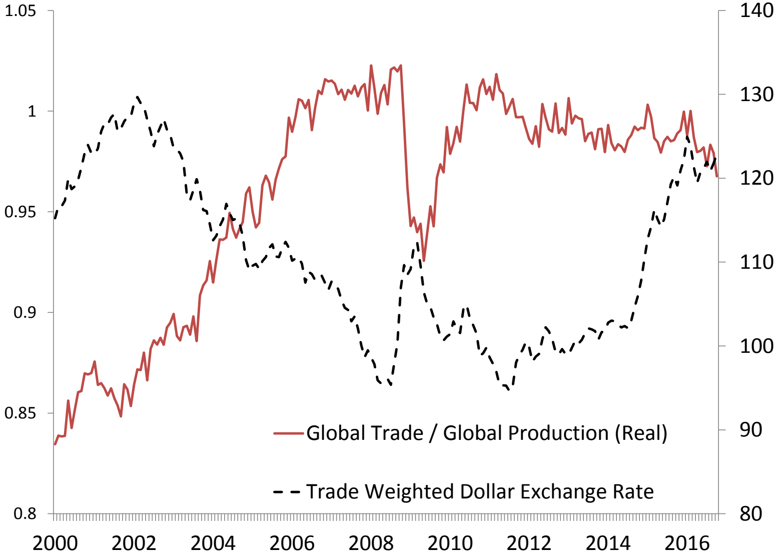
Puzzles/Issues to Address Using Colombian Data

- Exporter profit margins surge with depreciation vs. dollar. Any difference with LCP? Less likely to relax borrowing constraint?
- Do firms offset their exposure with hedges or hold asset positions that help?
- How might this distort entry patterns across Dollar and Non-Dollar destinations? Relative prices most distorted after major dollar moves?
- What are the differences in Colombia's vs. Chile's business cycles tied to differential dollar use? (Add "choice" to model.)

Bigger Puzzles/Issues (need GE)

- Should Taylor rules with FX include trade invoicing shares?
- Lawyers being "trained" to write boilerplate trade contracts to promote RMB invoicing. How would this matter?
- Where did Dollar preeminance come from? What would change it?
- How relate to Rey's global financial cycle? Cool/novel prediction of dollar as global "home-bias" shock.

Dollar Strength as Home-Bias Shock



Summary

- Very nice paper pursuing ambitious new paradigm for sticky price models
- In many dimensions most quantitatively rigorous treatment of pricing ridigities in international context
- Currently, distance from assumptions to outcomes not enormous, but very useful machinery to apply to important and novel questions