

Discussion of Crucini and Telmer's “Microeconomic Sources of Real Exchange Rate Variability”

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Paper

- Empirical, short, easy to read, quite clear
- This discussion - concentrate on the facts...
- ... but implications for theory is the next step
- I see main contribution as helping to sort out theories of international price(-change) distributions

Two new facts on behavior of international annual prices

1. Cross-sectional variance of deviations from LOP are larger than time-series variance
2. Two-thirds of time-series variance of changes in LOP deviations is due idiosyncratic variation, not country-specific variation

Data

Need more detail:

- goods (tradeables/nontradeables, durable/nondurable)
representative?
- cities/countries
representative?
- Global events within/across countries in 1990-2005

Good/City-pair/Country Fixed Effects

- More detail on fixed effects: separate good fixed effects from city-pair fixed effects
- Fact 1:
 - (a) is it goods in Tokyo tend to be more expensive than in Toronto? or
 - (b) for any good cross-city-pair variance dominates time-series variance?
- Would help to understand which heterogeneity is more important here: geographic location or type of market

Good/City-pair/Country Fixed Effects

- Similarly for Fact 2:
 - (a) idiosyncratic variation due to good-specific variation for a given city-pair? or
 - (b) idiosyncratic variation due to city-pair-specific variation for a given good?
- Would help to separate the nature of price variation due to common geographic location vs. common market

More motivation?

- Fact 2 seems more interesting/important than Fact 1.
- What is at stake here? What is the question?
 - real/nominal exchange rate dynamics?
 - goods/investment allocation across cities/countries?
- Klenow and Kryvtsov (2005):
 - intra-U.S. variance is comparable to time-series variance...
 - ... but does not affect the importance of time-series variance for inflation variance.

Other

- Trends important? Probably not, see Figure 2.
- Is annual frequency an issue for Fact 1?
- Country fixed effects important?
- Big devaluations important?
 - e.g. Russia 1998, Mexico 1994
 - do Facts 1 and 2 change for large devaluations?
 - may help to sort out SDP vs TDP based theories of international LOP deviations

Next step

- Take it to the model! (Some are presented here)
- Matching other facts? Persistence and volatility of real exchange rates (CKM, 2002)?