

Exchange rates and international trade: a micro perspective

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Main policy relevant questions

- ▶ What is the impact of exchange rate movements on export volumes, prices, entry and exit of exporters?
- ▶ How do firms react to exchange rate movements and to tariff changes? Are these reactions comparable?

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Back to basics: what can exporters do when faced with exchange rate movements?

- ▶ 1) let their export price in domestic currency unchanged \Rightarrow price in destination currency moves one to one with exchange rate (100% passthrough of exchange rate)
 \Rightarrow No change in exporters markup and maximum change in export volumes
- ▶ 2) let their export price in destination currency unchanged (0% passthrough)
 \Rightarrow Exporters markups absorb exchange rate movements and no impact on volumes
- ▶ 3) enter/expand product scope (depreciation) or exit/reduce product scope (appreciation)

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Empirical evidence at the *firm level*

- ▶ Aggregate estimations have problems as aggregate exports may have a feedback effect on exchange rates
- ▶ Better identification of impact of exchange rate at firm level, product or transaction level
 - Berman, Martin and Mayer (2012) on France
 - Chatterjee and Dix-Carneiro (2011) on Brazil
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- ▶ **On average** following 10% depreciation of domestic currency (Brazil, China or France) vis a vis currency x:
- ▶ Firms increase their export price (markup) by around 0.4 to 2.3% to destination x
- ▶ Firms increase their export quantities by around 4 to 7% to destination x
- ▶ Firms enter export market or expand product scope to destination x: entry takes place in the year
Probability of exporters to enter market increases by 1-2 percentage points.

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Different exporters , different reactions to exchange rate movements

- ▶ *Evidence on French, Chinese and Brazilian exporters:* Larger, more productive exporters react to a depreciation of their currency by an increase in markups: absorb more exchange rate movements in their markups
- ▶ Smaller, less productive exporters react by letting prices in the destination country vary with exchange rate: let volumes vary
- ▶ Aggregate implications: concentration of trade flows on large firms means aggregate trade (in volume) less responsive to exchange rate movements

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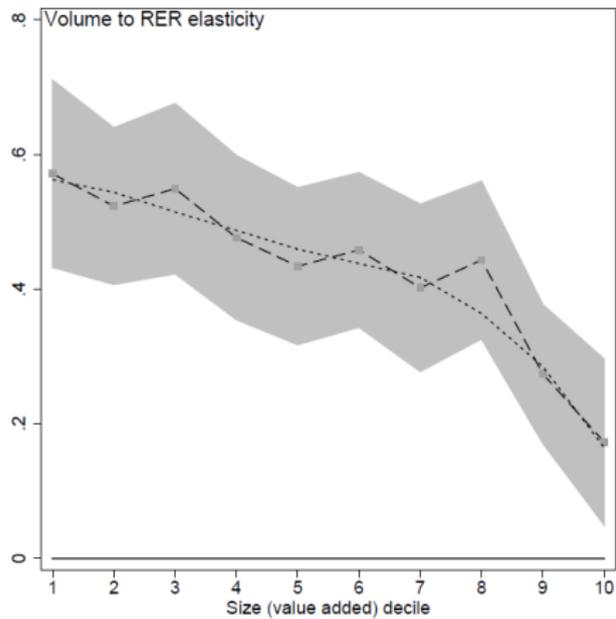
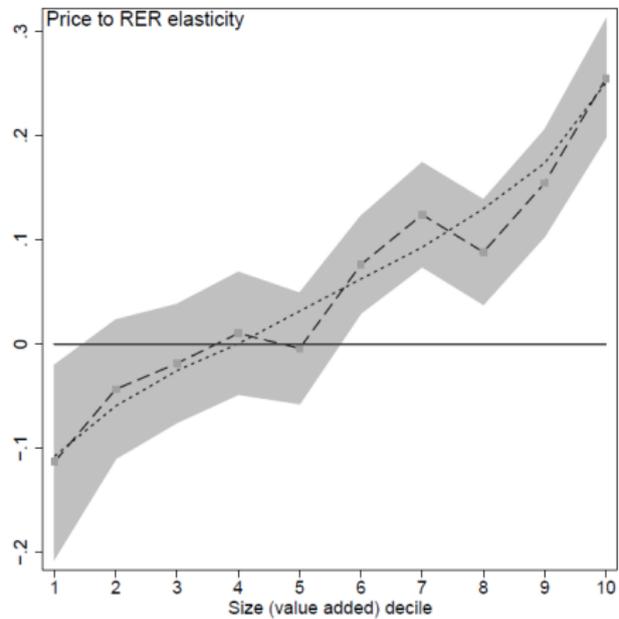
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How do exchange rate changes compare to tariffs changes?

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- ▶ On French firm-product level data (very preliminary and incomplete): similar short term effects but larger long term effects of tariffs
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