Firm's Predicted Exchange Rate and Nonlinearities in Pricing-to-Market

Thi-Ngoc Anh NGUYEN, Graduate Student, Yokohama National University

Kiyotaka SATO, Yokohama National University

ABSTRACT

This paper employs the nonlinear autoregressive distributed lag (NARDL) model to investigate possible asymmetry in the pricing-to-market (PTM) or exchange rate pass-through (ERPT) behavior of Japanese exporters. In contrast to the conventional threshold specification, this study utilizes the firms' predicted exchange rate to distinguish between yen appreciation and depreciation periods. Using Japanese export price data at industry level, we demonstrate that (1) almost full but symmetric PTM in short-run is confirmed among all industries, (2) there are long-run asymmetry in PTM/ERPT behavior of Japanese exporters in 2007-2015 period, (3) in 2007-2015 period, incomplete but relatively strong PTM is conducted by most industries in the yen appreciation period; however, during the yen depreciation period, competitive industries tend to conduct full PTM, while less competitive ones tend to choose far higher ERPT. These empirical findings have important policy implications for the recent unresponsiveness of Japanese real exports to the substantial depreciation of the yen from the end of 2012.