

## Exchange Rate Pass-Through and Export Competitiveness

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### Abstract

This paper aims to investigate possible effects of export competitiveness on the exchange rate pass-through (ERPT) or pricing-to-market (PTM) in Japanese exports. In contrast to previous studies, we construct a research and development (R&D) intensity variable for 21 major exporting sectors by dividing R&D expenditures by fixed asset, assuming that R&D is a possible source of export competitiveness. We first estimate time-varying ERPT (PTM) coefficients using the Kalman filter technique, and second conduct a panel analysis to test the hypothesized relationship between the ERPT (PTM) and the export competitiveness variable. We also investigate whether the above hypothesized relationship differs between the yen appreciation and depreciation periods. Our empirical analysis demonstrates that export competitiveness significantly affects the ERPT (PTM) strategy of Japanese exporters and also has different impact between yen appreciation and depreciation periods.

*Keywords:* Exchange rate pass-through (ERPT), pricing-to-market (PTM), export competitiveness, time-varying parameter estimation, panel analysis

*JEL Classification:* C33, F31, F3