Comments on

On the Determinants of Export Prices: History vs. Expectations

by Fukuda and Ono

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The Question:

- What is the impact of choice of invoice currency on exporters?
  - Older Options: PCP (Producer) and LCP (Local)
  - Here: add VCP (vehicle)
  - Also: add dynamics (=> role for history/expectations)

The Complication:

- Exporters have to set prices before exchange rate uncertainty is resolved.

The Answer:

- Optimal currency of denomination varies parametrically
- Can get inefficiency because of multiplicity of equilibria; history matters

Issue #1: Is General Equilibrium More Appropriate?

- Much literature: Bachetta-van Wincoop, Goldberg-Tille etc.

- Currency choice might depend on:
  - Degree/Type of wage rigidity (nominal/real?)
  - Country size (large => PCP)
  - Degree of goods' differentiation (more => PCP)

Issue #2: Does Currency of Invoice Matter with Derivatives?

- Why not hedge away (most) exchange risk?
  - After prices set, before exchange rate known
- How important is unit of account when UoA need not be medium of exchange?
- Typically we think of transactions exposure as being small
  - (Operating exposure – effects on cash flows – need not be!)

Issue #3: Can we simply Ignore Consumers?

- Here focus is exclusively on exporters
- Welfare and Efficiency: we care about consumers, competitors, market structure, etc.

Issue #4: Why Is $ Used so Widely as Vehicle Currency?

- Well-known, established stylized fact: how does this model allow us to understand it?
  - Why isn't Euro rising faster?
  - Why isn't Pound (old vehicle) more important?

- When do countries hit transition point?
  - Should focus on OECD countries; $ used to be used in Europe, but now mostly in LDCs
  - That is, switches are rare but do occur
    - Focus on these!

5 Smaller Issues

- Does $ have special role because of American openness/collateral repository role? (Dooley-Garber)
- Asians are not obvious illustrative choices because of historical exchange rate links to USA, plus "fear of floating"
    - Non-EMU European countries probably better examples for $ VCP

- Here, all production is domestic. But much emphasis on explaining price dispersion via foreign marketing and/or distribution costs. Important?
- Model simulations somewhat contrived: eliminate coordination failure by assuming all exporters change expectations simultaneously
- Title could be more accurate

Bottom Line

- An interesting and potentially important contribution!

- Much room for further work