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# The International Elasticity Puzzle Is Worse Than You Think<sup>\*</sup>

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## Abstract

We instrument export prices with firm level electricity cost shocks and estimate three international price elasticities using firm-level export data: the elasticity of firm exports to export price, tariff and real exchange rate shocks. In standard models these three elasticities should be equal. We find that this is far from being the case. The export price elasticity is the highest, around 5, much larger than the exchange rate elasticity. The international elasticity puzzle is therefore worse than previously thought. We also show that exporters absorb one third of tariff changes in their export prices. Because we take into account this reaction of export prices to tariffs, our estimate of the tariff elasticity corrects from this omitted-variable bias.

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