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Abstract

We explore the role of product market structure on exchange rate pass-through and currency of invoicing in international trade, using very detailed transaction-level data on Canadian imports over a six-year period. A novel feature of the study is the importance of market share on both sides of the importing relationship—that of the exporting and importing firms. We find that exchange rate pass-through and the currency of invoicing are dependent on the size (or market share) of both importers and exporters. Very small or very large exporters have higher rates of pass-through and tend to invoice in the foreign currency, while it is the opposite for exporters in the middle range. By contrast, for larger importers, pass-through is lower and local currency invoicing is more prevalent. These findings are consistent with a simple model of trade pricing under monopolistic competition with endogenous markups and heterogeneity in firm size (on both sides of the transaction).

JEL Classification: F3, F4

Keywords: Exchange rate pass-through, market structure, currency of invoicing, trade

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