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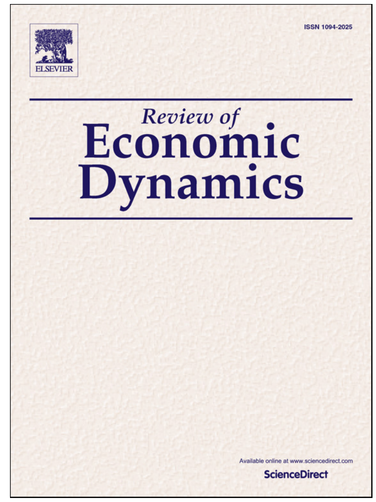

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How Important is the Currency Denomination of Exports in Open-Economy Models?*

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Abstract

We show in a quantitative open-economy model that standard alternative assumptions about the currency in which firms price export goods do not substantially affect unconditional second moments of aggregate variables while implying stark differences for many sectoral variables. We show that the presence of a retail sector with sticky prices is an important factor in this result. With respect to the dynamics of the model, we find that the pricing regime matters if the shock is to uncovered interest parity, while the model's behavior is similar when the shocks are to productivity. Because shocks to uncovered interest parity account for only a small fraction of volatility of aggregate variables (other than exchange rates and terms of trade), we conclude that differential effects under the two polar international pricing regimes may not be as extensive as standard analyses may suggest.

Keywords: local currency pricing; producer currency pricing; invoice currency.

JEL classification: F3, F41

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