

Accepted Manuscript

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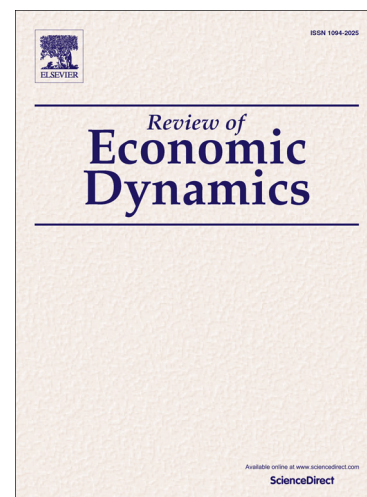
PII: S1094-2025(16)30028-X
DOI: <http://dx.doi.org/10.1016/j.red.2016.09.003>
Reference: YREDY 778

To appear in: *Review of Economic Dynamics*

Received date: 8 October 2013
Revised date: 9 September 2016

Please cite this article in press as: Dotsey, M., Duarte, M. How important is the currency denomination of exports in open-economy models?. *Review of Economic Dynamics* (2016), <http://dx.doi.org/10.1016/j.red.2016.09.003>

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

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September 2016

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

*We thank M. Doepke, an associate editor and a referee for useful and detailed comments. We also thank Hamed Bouakez, Pablo Guerrón, Federico Ravenna, Kei-Mu Yi, and seminar participants at HEC Montréal, the Reserve Bank of New Zealand, University of Oxford, and the annual meetings of the Society for Economic Dynamics, the European Economic Association, and the Portuguese Economic Journal for their comments. Duarte gratefully acknowledges the financial support from the Connaught Fund at the University of Toronto and the Social Sciences and Humanities Research Council of Canada. The views expressed in this article are those of the authors and do not necessarily represent those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. This paper is available free of charge at www.philadelphiafed.org/research-and-data/publications/working-papers/.

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