

Joint SCAPE-ESS Seminar

Title	Expenditure-Switching Effect and the Choice of Exchange Rate Regime
Speaker	Dr Wei DONG <i>Bank of Canada</i>
Date	14 July 2008, Monday
Time	2:30pm – 4pm
Venue	<u>Lim Tay Boh Seminar Room (AS2 03-12)</u> <i>Faculty of Arts and Social Sciences National University of Singapore 1 Arts Link, Singapore 117570</i>
Chairperson	A/P Liu Haoming

Abstract

The author investigates the quantitative importance of the expenditure-switching effect by developing and estimating a structural sticky-price model nesting both producer currency pricing (PCP) and local currency pricing (LCP) settings. The author aims to provide empirical evidence of the magnitude of the benefits to be gained from exchange rate flexibility in terms of expenditure switching, and to contribute to the ongoing debate regarding the optimal exchange rate regime. In the author's model, the size of the expenditure-switching effect is determined by the degree of price stickiness, the fraction of firms employing PCP versus LCP, the distribution margin, and the elasticity of substitution between domestic and foreign tradable goods. The model is estimated for three small open economies: Australia, Canada, and the United Kingdom. The empirical results suggest that, among the three countries, the magnitude of the expenditure switching by domestic agents is relatively small for the United Kingdom, and comparatively large for Canada; the distribution margin in the United Kingdom is exceptionally high, which limits the degree of domestic expenditure switching initiated by nominal exchange rate movements. Moreover, expenditure switching by foreign distributors is comparatively small for Australia and Canada, since a larger fraction of Australian and Canadian firms adopt LCP for their export price-setting.

About the Speaker



Wei Dong joined the Bank of Canada in August 2006 as a senior analyst in the International Department. Her research interests are open economy macroeconomics and international finance. Wei's research covers the dynamics of exchange-rate movements and the implications for real economic adjustment and monetary policy. Wei holds a Ph.D. in economics from the University of Wisconsin-Madison and a B.A. from Nankai University.

Seating is on a first-come-first-served basis and admission is free.

Please indicate your attendance with:

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