Multi-product exporters, variable markups and exchange rate fluctuations

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Abstract

In this paper we investigate how firms adjust markups across products in response to fluctuations in the real exchange rate. In a theoretical framework, we show that firms increase their markups and producer prices following a real depreciation and that this increase is greater for products with higher productivity, a consequence of local distribution costs. We estimate markups at the market-product-plant level using detailed panel production and cost data from Mexican manufacturing between 1994 and 2007. Exploiting variation in the real exchange rate in the aftermath of the peso crisis in December 1994, we provide robust empirical evidence that plants increase their markups and producer prices in response to a real depreciation and that within-firm heterogeneity is a key determinant of plants' response to exchange rate shocks. Our model and empirical methodology allow us to decompose the producer price response to exchange rate shocks into a markup and a marginal cost component using our markup estimates.

Speaker's Profile:

Arpita Chatterjee is an Assistant Professor at Australian School of Business, University of New South Wales, Australia. Her research interests include International Economics, Macroeconomics and Applied Econometrics. She has a MA and PhD in Economics from Princeton University.