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| Tiivistelmä-Referat-Abstract This paper investigates price setting of internationally traded goods. We develop a theoretical model that incorporates sticky prices both in the currency of buyer (local currency pricing) and in the currency of seller (producer currency pricing). The nature of price setting is thus forward looking and the exchange rate effect depends on the relative share of local currency and producer currency pricing firms in the economy. The model is estimated with Finnish foreign trade price data for the period 1980-1998. The estimation results seem to support the model. The estimated share of local currency pricing is 40 percent in the export sector and 60 percent in the import sector implying that there is limited pass-through from exchange rate to destination country prices in both sectors. | | | |
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