

PRICING TO MARKET
WHEN EXCHANGE RATE CHANGES
AND OUTPUT LEVEL MATTERS

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ABSTRACT

This dissertation clarifies the definition of Pricing to Market (PTM) and formalizes the definition. PTM in this paper focuses on the relative movements of prices in different markets, conditional on exchange rate movements.

This dissertation provides the bilateral trade model that determines the output levels of two countries endogenously. And it considers the output level is the reason of PTM in the model economy. The model also suggests a standard to identify the existence of PTM based on the definition of PTM.

I conclude that an incomplete Exchange Rate Pass-Through (ERPT) is prevalent in the markets. Invoice currency has an effect on ERPT and PTM: Exporters pass through more exchange rate movements to the export price -- higher degree of ERPT and the relative price difference between the domestic and the foreign market is larger -- higher degree of PTM when they invoice the export price in their own currency than they do in the buyers' currency.