

Exchange-rate pass-through via the supply side

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Abstract

Firms have various instruments to adjust prices to exchange-rate shocks. While extensive research has been conducted on the adjustment of prices for existing products, we know very little about the role of supply-side adjustments through market entry, exit, and quality adjustment. We find a remarkably strong response of the quality component in export prices after the 2015-appreciation in Switzerland, which accounts for more than one third of the change in quality-adjusted export prices one year after the shock. Prices for products produced in Switzerland that are sold in the domestic market adjust quality, too, but to a lesser extent. There is no systematic quality adjustment of import prices after the CHF shock. We investigate the underlying adjustment mechanism and find that product scope adjustments are the main driver.

JEL classification: E3, E31, E50, F41

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