

Research Seminar Series (2017/18)

Reexamining the Equivalence Result of Optimal Pass-through under Price Adjustment Costs



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Venue : W613

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Speaker : **Professor Junxi ZHANG**

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Abstract:

This paper examines the equivalence result for currency invoicing in a dynamic continuous-time model by incorporating three new elements: price adjustment costs, vehicle currency pricing and a multi-country framework. We find that in a two-country framework, the long-run value of pass-through is the same for all invoicing choices in importer's, exporter's and vehicle currency; moreover, an equivalence result on the choice of currency invoices always prevails, regardless of whether prices are flexible, sticky, staggered, or changes with adjustment costs. In a multi-country framework, however, these results are no longer valid and the equivalence result breaks down. The mechanism at work is the presence of a coalescing effect in the multi-country framework.

Prof. Junxi Zhang, Jack, obtained his Ph.D degree from University of Pittsburgh in U.S. in 1992, and is currently a professor in economics and vice president at Tianjin University of Finance and Economics. Before returning to China in 2012, he has worked in a number of universities in the world over the years, such as Chinese University of Hong Kong, University of Dundee in U.K., National University of Singapore, and University of Hong Kong. His research interests include macroeconomics, monetary economics and international finance. He has published in international journals, like Economic Journal, Journal of Monetary Economics, Journal of Public Economics, and etc. Besides, he has also published in some top Chinese journals, like Journal of Economic Research, Economic Quarterly, Journal of Financial Research, Management World, etc. In 2004, Prof. Zhang was ranked among the top 500 economists in the world.