Exchange Rate Pass-Through to U.S. Import Prices:

Evidence from the Wine Market

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Abstract

This study investigates exchange rate pass-through in the United States market for imported wine. Exchange rate pass-through (ERPT) is defined as the percentage change in the price of an imported good due to a one percent change in the exchange rate. The goal of the analysis is to determine the extent and timing of the pass-through of exchange rate changes for various countries, wine types, and price brackets in the global wine market.

We first employ a static, fixed effects model to quantify ERPT for each country. Though some of the results of this model are consistent with economic theory, the time-series nature of the data gives reason to doubt the soundness of this static specification. We expect that pass-through will affect prices across a number of time periods, requiring the implementation of a true dynamic model. Thus, we introduce a distributed Koyck lag to make model dynamic and to produce more robust results.