

## Reply to referee report 2

Dear Sir or Madam,

thank you for the valuable feedback we received. Regarding the respective concerns mentioned, here is our reply.

As for the general concerns, we would like to back the motivation and the approach. Our paper fills the existing gap in the literature. It investigates a period of a very unusual monetary policy and compares it with the previous period with no such treatment. We used a common empirical approach on an uncommon experience. Thus, we kept the paper in line with the literature, and achieved a result that can be relevantly discussed.

The existing literature is limited, as was mentioned in the previous paragraph. It is because the monetary policy is unconventional. Since it is unconventional, it is neither well known nor thoroughly studied. We will state that clearly. The economic policy recommendation is indeed quite implicit. We will include it in the discussion.

1. The introduction section was supposed to give the reader an overview of the paper rather than of the existing literature. Nevertheless, we will include the main literature in the introduction as well, so that the reader is aware of what our paper is in relation to.

2. VAR models solve the problem of endogeneity, as well as causality, since the system contains an equation for each variable (which is exactly what Granger causalities are based on). In this sense, the vector autoregressive models are superior to the simultaneous equations. As the referee pointed out, the VAR model is able to trace the dynamics of the response within the system. The method used is not disapproved as such, the referee rather gives other option to deal with the topic. We will argue the motivation of using vector models deeper.

3. We mainly focused on existing literature concerning Switzerland. Reason for that was the unique experience which was previously never applied in order to enhance inflation, either in Switzerland or in other economies. Contributions dealing with similar topic or approach exist though, and we will discuss these in the paper.

4. Stulz's study could not involve the exchange rate interventions, since the study was published in 2007 and the interventions were introduced in 2009. Our paper attempts to study the ERPT for the exceptional policy, too.

5. We did explain the gradual decline of the ERPT chain. For example, at page 4, where we quoted Greenspan and several other authors, or at page 10, where we assumed that the firms want to keep their competitiveness and thus they do not increase prices. In addition, our goal was to study the effect of the depreciation rather than why the effect is such. However, the microeconomic aspect does sufficiently explain the weakness of the macroeconomic exchange rate policy. Therefore, we will include the reasoning the referee suggested into the literature, as well as into the result discussion.

6. This section is indeed confusing, we will rewrite it. What it aimed to illustrate is that if the exchange rate is generally stable, an unexpected shock is more likely to be reflected in the prices. In other words, the economic subjects reflect their expectations into their behaviour, in this case, into the prices. If they expect the exchange rate to be volatile, they transfer this expectations into the prices ex ante, and thus they do not need to adjust their prices ex post. This is apparently in line with the Ben Cheikh's study mentioned by the referee, because the large exchange rate shocks are less usual than small ones, namely in the developed economies.

7. Choleski decomposition impose enough restrictions on the VAR model to obtain structural innovations from the error terms. It is one of the options, and any restrictions would be imposed with the same intention. This is why we used the acronym SVAR. However, we have no problem to use the acronym VAR, since SVAR is a subset of vector models.

8. We will present the whole model with the equation system. We did not involve it in the paper, because the empirical framework is common and generally known.

9. We used standard stationarity test, which is the augmented Dickey-Fuller test. But of course, we can and we will test the stationarity of the series more thoroughly with the exact results.

10. The structural break in the data will be formally tested, we recalled consensus and a well-known fact that the stationarity tests are subjects to this problem.

11. The cointegration deals with non-stationary time series, and since we worked with stationary data, we could not expect cointegration. VECM models are a different approach, we aimed to explain the immediate reaction on the exchange rate changes, not the long-run relationship.

12. The sentence "Despite the effect's moderate influence" means "Even though the effect is not major". The paper did undergo a thorough proofreading. We cannot exclude all mistakes, but the paper certainly does not contain a fair share of them.

#### Minor corrections:

- We are aware of the unsettled definition of ERPT; our definition reflects the aim of the paper. We will state this clearly.
- We will provide further discussion on the full, partial or zero ERPT.
- Incomplete is more common indeed. Some dictionaries list those two as equivalents though. We will replace "uncomplete" with "incomplete".
- Numbering will be altered. In the manuscript, we did not number the introduction since it is usually not numbered.
- As we mentioned above, we will provide thorough stationarity tests, including the exact results. The stationarity tests are subtests to check the data, and we provided the data, which is why we did not include the tests in the text. We will do so in the revised version.
- The words "section" and "chapter" are usually treated as synonyms. To some people, however, these two can sound somewhat different. For us, the word "section" is appropriate, we will replace the word "chapter" with it.