

1/ The paper is well written and the author has an excellent command of the modeling techniques used for modeling non linearities.

2/ however I have doubts on the economic interpretation of equation (9) which is the main equation for testing the exchange rate pass through. As acknowledged by the author, there are two types of exchange rate pass through, namely the “first step pass through” which deals with the effect of the exchange rate on import prices, and “second step pass through” for the effect of the exchange rate on inflation. Most of the literature the author is referring to focuses on the first step pass through, and equation (9) is designed to test it, while the paper concentrates on the second step pass through. As indicated clearly by the author, the paper deals with the pass through to consumption prices. As a consequence, I wonder whether equation (9) is well specified, in the sense that it should incorporate the effect of the exchange in a fully specified model of domestic inflation.

First, the author puts aside the modern determinants of inflation and the role of expectation and monetary policy.

Second, in the standard and more old fashioned “markup model of inflation”, inflation is explained by domestic unit labour costs, real exchange rate and possibly time-varying markup. With reference to that model, it is difficult to argue that some of the other conditioning variables ( $y$ ,  $w$ ) indeed measure the other determinants of inflation. For example, it would be a rather strong assumption to assume that foreign unit labour costs are a proxy for domestic unit labour costs.

Third one may also consider possible trends in the share of imported goods in the consumption basket used for measuring inflation, especially given the length of sample period which starts in 1975:1. How could it be taken into account in the modeling strategy?

3/ A few typos should be corrected

-p. 2. “It is expectable” (please write: “it is expected”)

-p3 “For Example” (no cap for E)

-p4 “From theoretical point of view” (please add “a” after “From”)

-p 17 “during the three first year” (to be replaced by “the first three years”)