

Comments on “Asymmetric Exchange Rate Pass-through in the Euro Area: New Evidence from Smooth Transition Models”
by N. B. Cheikh

The paper estimates the degree of exchange rate pass-through (ERPT) using STAR models. The use of STAR model is motivated by the possibility of asymmetric adjustment caused by (i) market share objective (ii) capacity constraints, and (iii) menu costs. The effect of direction is considered by the LSTAR model, while the effect of magnitude is considered by the ESTAR model. Based on the data from 12 Euro area economies, the paper finds the evidence of nonlinear ERPT for 5 out of 12 countries using the LSTAR model and for 9 out of 12 countries using the ESTAR model.

It is an interesting paper and the empirical analysis seems to be carefully executed. I have some concerns, however, mainly about the exposition.

1. There are a number of grammatical errors which should be corrected. For example, in page 4, ‘In one hand, ..., in the other hand, ...’ should be replaced by ‘On one hand, ..., on the other hand, ...’ ‘with a currency’s importing country appreciation’ should be replaced by ‘with importing country’s currency appreciation.’ In footnote 6, it is a subscript not a superscript, and so on...
2. Three major explanation parts can be more clearly written using the terms ‘domestic,’ ‘foreign,’ ‘exporters,’ and ‘importers’ more effectively. For example, first sentence can be rewritten as ‘faced with a depreciation of the domestic currency, foreign exporters can follow PTM strategy’ It should also clarify that foreign exporters set the prices but not importers.
3. The presence of menu costs can be a reason to nonlinear ERPT but asymmetric part is not clear. Does this mean menu costs are asymmetric in the sense that costs of price increase and reduction differ which is similar to the asymmetric wage rigidity caused by the union effect? In page 9, the author seems to be using the term asymmetric in the sense that ERPT’s are different depending on whether exchange rate changes are large or small. I think it is confusing to describe this situation ‘asymmetric’ since ESTAR model has its asymmetric variants often called as the asymmetric ESTAR model with asymmetric U-shaped transition functions. The employed ESTAR model here is based on symmetric U-shaped transition function.
4. It is not clear why the markup takes the form in equation (3). In addition, even if we substitute (3) into (1), the log-linearization of (1) with respect to E will not yield (4).
5. ϕ is used in both (5) and (6) but they are different parameters.

6. Tables 4 and 5 indicate the inclusion of lagged π 's in the ERPT regression. However, they are not shown in (9).