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Exchange rate pass-through in Turkish export and import prices

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Abstract

This article examines exchange rate pass-through into prices of internationally traded

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implies that the Turkish manufacturing export sector has the competitive strength to transmit exchange rate movements into their prices.

Notes

¹As is usually the case, empirical studies have focused mainly on developed countries. See, Goldberg and Knetter ([1997](#)), Campa and Goldberg ([2002](#)) for surveys. A few studies on developing countries are mentioned below.

²See also Anderton ([2003](#)), for counter evidence on complete pass-through in Euro area.

³To our knowledge, the only study that considers Turkey is Leigh and Rossi ([2002](#)). They find evidence on incomplete pass-through. However, they only analyse the pass-through in CPI not in tradable prices.

⁴The theoretical underpinning of these specifications can be found in, for example, Mann and Hooper ([1989](#)) or in several others inspired by this pioneering study.

⁵Disadvantages of using unit value indices instead of real transaction prices have been widely reported. The major criticism depends on the fact that the composition of the unit and the weights assigned to individual items within the unit remain unchanged from one period to another. Alterman ([1991](#)) examines the effect of using unit values as opposed to real transaction prices in the US case, and finds that using unit values as a support unit is not appropriate.

⁶Data on the Turkish manufacturing export sector is available from the Statistical

Compendium of Turkey, published by the Ministry of Economic Affairs and Finance.

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⁹This is in line with the literature which requires that variables should be firmly established as integrated order one (I(1)).



¹⁰We also used ADF-GLS test of Elliot et al. ([1996](#)). This test, however, yields similar results with ADF tests reported in [Table 1](#).

¹¹During estimation trend term is restricted into the cointegration space and intercept is left unrestricted. Since the level variables are trended and this formulation ensures that the solution of the model in terms of level variables does not contain quadratic trends, we think of this is as the most appropriate specification.

¹²All computations in this and following sections are carried out in PcGive 10.4.

¹³We only report trace statistics as suggested by Cheung Lai ([1993](#)) and Lütkepohl et al. ([2001](#)).

¹⁴This is true when tested at 5% significance level except VAR (4), for which the result of two cointegration vector can only be accepted at 10% significance level.

¹⁵Qualitatively we obtain similar results from the other VAR models.

¹⁶ Δ is the first difference operator.

¹⁷Therefore, the last coefficients in long-run matrix belongs to this linear trend term.

¹⁸These dummy variables take on the value of 1 in the second quarter of 1994 and 2001, and zeros elsewhere. We have also run the regressions without these dummies and found more or less similar results. For instance, the coefficients of exchange rate pass-through in export and import prices in regressions without dummies were found to be -0.55 and 0.56 respectively. These results are also available upon request.

¹⁹In [Table 1](#) and with Δ and not Δ^2 .

²⁰Even if Δ is used, equilibrium-estimates leaving

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30.30% of deviations from the equilibrium in period $t-1$ is corrected in the next period, corresponding to approximately two quarters for the half of the disequilibrium to be corrected. However, import prices indicate much slower rate of disequilibrium correction, leading to about 17 quarters of half life.

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