The effect of the single currency on exports: Comparative firm-level evidence

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Discussion by
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Contribution

• Effects of common currency areas on trade
  • Diff-in-Diff using firm level data from Slovakia and Estonia

• Results
  • Significant and strong effect for Slovakia: 14% for exports (intensive margin dominates)
  • No effect for Estonia

• Mechanism
  • Transaction cost channel related to exchange rate volatility
Empirical Strategy

• Diff-in-Diff as in previous works but:
  • Dynamic estimation
  • GMM as robustness

• Nickell bias
  • Inconsistency in autoregressive coefficient $\rho$ is: $1/T$ (as $N \to \infty$)
  • With $T = 6$ bias may be large

• Note that: if regressors are correlated with the lagged dependent variable to some degree, their coefficients may be seriously biased as well (Baum).
Empirical Strategy

• Diff-in-Diff as in previous works but:
  • Dynamic estimation
  • GMM as robustness

• GMM is a suitable alternative but:
  • Report the lag structure used for internal instruments
  • AR1 and AR2 test also useful to be reported
  • Probably better to report the Hansen test (Sargan assume homoscedasticity)
  • Robustness to different lag structure is also important
Empirical Strategy

• Would be interesting to report results from a specification without dynamic term:
  • Easier to compare with previous studies (as Fontagné and Berthou, 2013, Berman et al. QJE2012)
  • Or at least motivate a little more why it is important to introduce dynamic term
Empirical Strategy

Control and treatment group seems to differ for average and total exports (Common Trend)

How many firms in each group? Are those differences significant?
Empirical Strategy

• Berman et al. (2012):
  • *Model Prediction I*: The elasticity of the exporter price to a real exchange rate change increases with the performance of the firm (pricing-to-market: high-productivity firms absorb more exchange rate movements in their markups).

• *Model Prediction II*: The elasticity of the firm’s export volume to a real exchange rate change decreases with the performance of the firm.

• If quantities are available in custom data, prediction I may be also checked
• How to reconcile Prediction II with your results on TFP: effect of EA slightly greater for more productive firms?
Mechanism

- Is the effect only driven by Volatility? CV of variation of bilateral monthly Exchange rate. Slovakia vis-à-vis EU member states (trade weighted).
- Source: Cepii’s EQCHANGE
Minor points

• Cluster is at the firm-by-destination level
  • May be more conservative at firm level and/or destination level
  • Inference is important may be worth add some robustness

• Industry level estimates:
  • Wood Products/ Printing and media +39%
  • Fabricated metals +33%
  • Are those estimates plausible?
• Thank you!