

Discussion of:

**Exchange-Rate Policy Attitudes:  
Direct Evidence from Survey Data**

**by J. Lawrence Broz, Jeffry Frieden and Stephen Weymouth**

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Justin Wolfers

Wharton School, University of Pennsylvania

CEPR, CESifo, IZA and NBER

# Objectives of the paper

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## □ Motivation:

- ▶ “Exchange rate policy is constrained by contending economic interests and policy preferences, which makes it important to understand those interests and preferences.”

## □ Research question: How does exposure to trade change policy preferences?

### ▶ Exchange Rate Regime

- “we expect firms with substantial cross-border exposure to be particularly sensitive to currency volatility, and thus to be more satisfied with a fixed exchange rate”

### ▶ Exchange Rate Levels

- “we expect firms in the tradables sectors to be more satisfied when the currency is weak and more dissatisfied when it is strong”

## □ Method: Differences-in-differences

- ▶ Are “more exposed” firms “more sensitive” to currency volatility?
- ▶ Are “more exposed” firms “more sensitive” to currency levels?

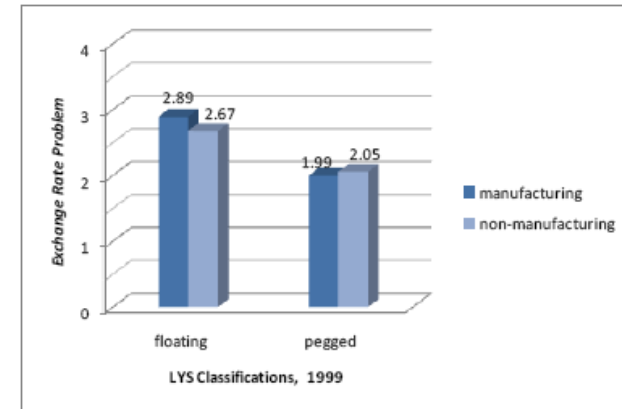
## □ Observations

- ▶ Results are replicable
- ▶ Careful treatment of qualitative data and intra-national correlation
- ▶ Novelty: Analysis of stated preferences (cf theory; voter or legislator revealed prefs)

# Attitudes to Exchange Rate Regimes

- Hypothesis:  $\text{Cost of XR volatility} \mid \text{exposed} > \text{Cost of XR volatility} \mid \text{not exposed}$ 
  - ▶ “We want to test the hypothesis that **internationally exposed firms prefer greater currency stability**”

Figure 3: Manufacturing vs. Non-Manufacturing Average Responses, by Exchange Rate Regime

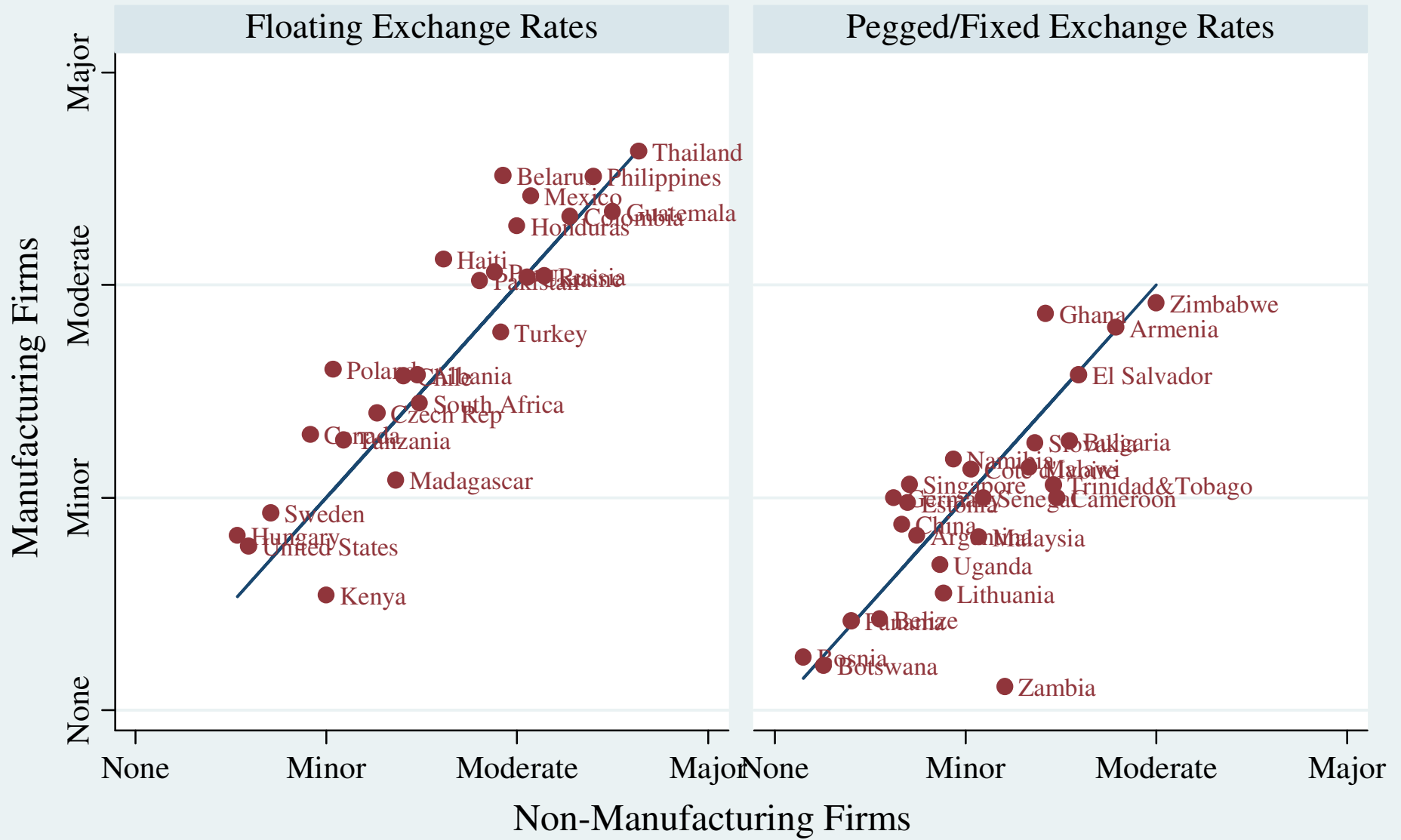


- Implementation:
  - ▶ “**internationally exposed firms**”
    - Manufacturing firms
    - Tradable = manufacturing + agriculture
    - Exporter: Firm exports some product
  - ▶ “**prefer**”
    - “How problematic is the exchange rate for the operation and growth of your business?” (*Whining*)
  - ▶ “**greater currency stability**”
    - Pegged exchange rate regime (v. floating)

- Method: Simple difference-in-difference  
 $(\text{“Whining”} \mid \text{exposed} - \text{“Whining”} \mid \text{not exposed})^{\text{Floating}} > (\text{“Whining”} \mid \text{exposed} - \text{“Whining”} \mid \text{not exposed})^{\text{Peg}}$   
 Valid if:  $\text{Cost of XR volatility} \Leftrightarrow d \text{“Whining”} / d \text{XR regime}$   
 Is this stated preference?

# How problematic is the exchange rate for... your business

## Country Averages: Manufacturing v. Non-Manufacturing



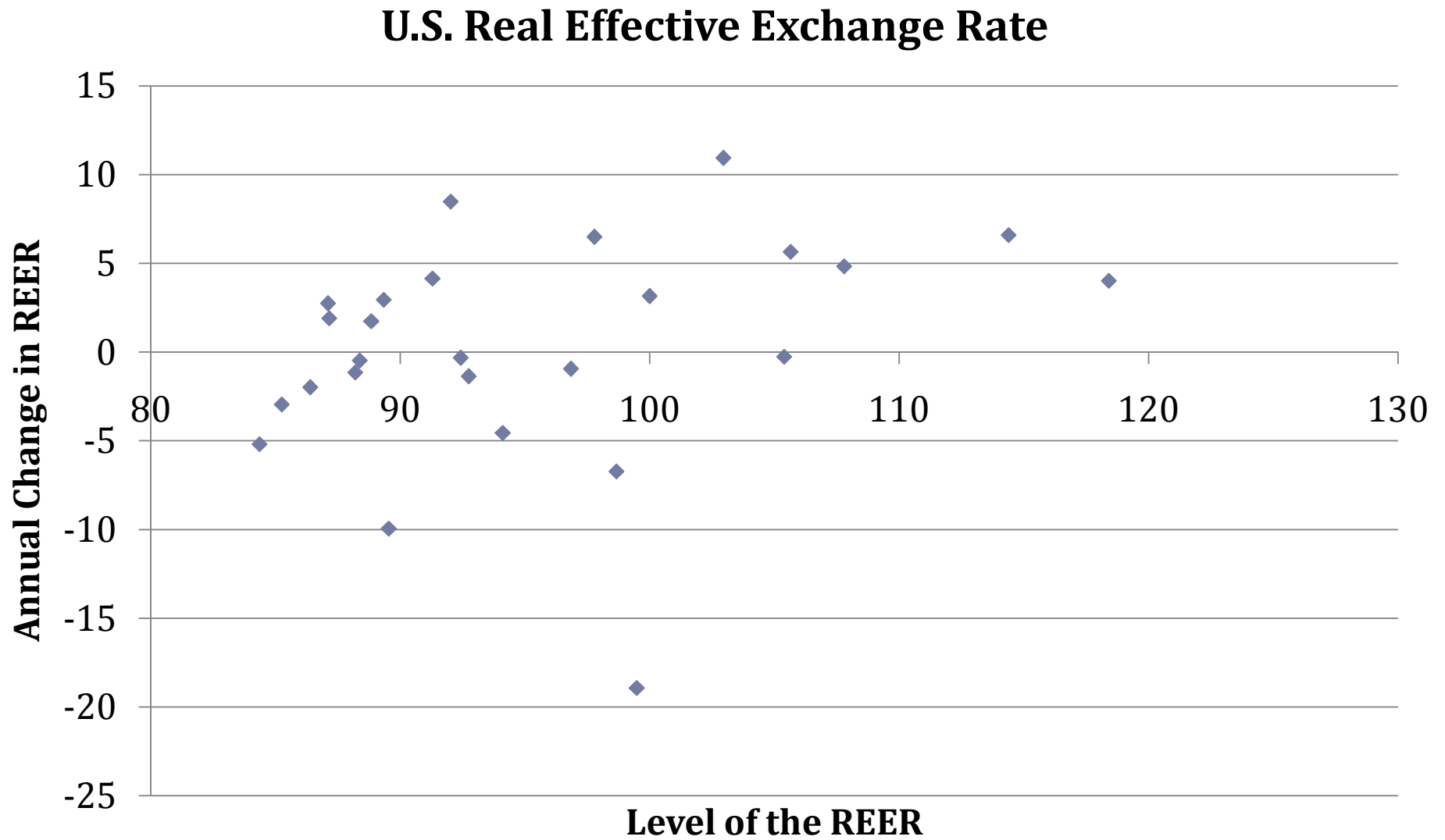
Graphs by Exchange Rate Regime

# Attitudes to Exchange Rate Levels

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- Hypothesis:  $d\text{Satisfaction} \mid d\text{REER}^{\text{tradable}} > d\text{Satisfaction} \mid d\text{REER}^{\text{non-tradable}}$ 
  - ▶ “we expect firms **in the tradables sectors to be more satisfied** when the currency is weak and more dissatisfied **when it is strong**”
- Implementation:
  - ▶ “**in the tradables sectors**”
    - Manufacturing firms
    - Tradable = manufacturing + agriculture
    - Exporter: Firm exports some product
  - ▶ “**to be more satisfied**”
    - “How problematic is the exchange rate for the operation and growth of your business?”
  - ▶ “**when the currency is weak**” / “**when it is strong**”
    - Annual **change** in real effective exchange rate
      - Claimed to be a proxy for REER level
      - May instead proxy for REER volatility
- Issues:  $d\text{Whining} \mid d\Delta\text{REER}^{\text{tradable}} > d\text{Whining} \mid d\Delta\text{REER}^{\text{non-tradable}}$ 
  - ▶ Change v. level of REER
  - ▶ Does Whining = Satisfaction?
    - What does it mean for the exchange rate to be “problematic”?
      - “If the exchange rate would rise x%, my profits would rise y%”
      - If  $d\text{Profit}/d\text{REER}$  is constant: Firms in the tradable sector should always whine
      - If  $d^2\text{Profit} / d\text{REER}^2 > 0$ : Firms in the tradable sector should whine when REER is high
      - If  $d\text{Profit}/d\text{REER}^2 > 0$ : Firms in the tradable sector should whine following REER appreciation

# Level and Changes of REER



# Dependent Variable: Exchange Rate Problems

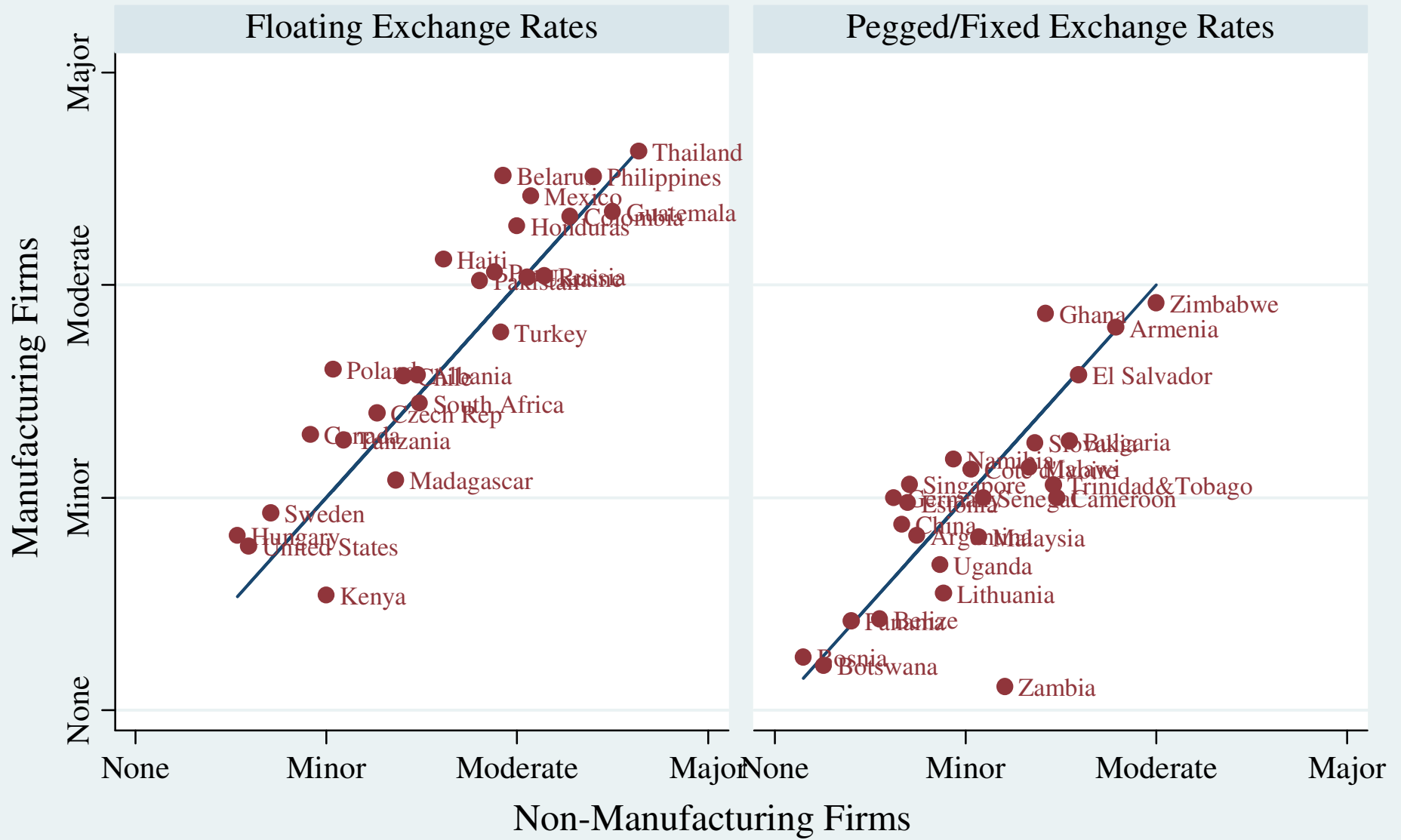
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- ❑ From paper: “How problematic is the exchange rate for the operation and growth of your business?”
  - ❑ From survey instrument:  
“Please judge on a four point scale how problematic are the following factors for the operation and growth of your business.  
(Please do not select more than 3 obstacles as ‘major’ (4) and please circle the single most important obstacle):
    - a. Financing
    - b. Infrastructure (e.g. telephone, electricity, water, roads, land)
    - c. Taxes and Regulations
    - d. **Policy instability / uncertainty**
    - e. **Inflation**
    - f. **Exchange Rate**
    - g. Functioning of the judiciary
    - h. Corruption
    - i. Street crime / theft / disorder
    - j. Organized Crime / Mafia
    - k. Anti-competitive practices by government or private enterprises
    - l. Other (Specify constraint)”

[1 = No Obstacle; 2=Minor Obstacle; 3=Moderate Obstacle; 4=Major Obstacle]
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# How problematic is the exchange rate for... your business

## Country Averages: Manufacturing v. Non-Manufacturing

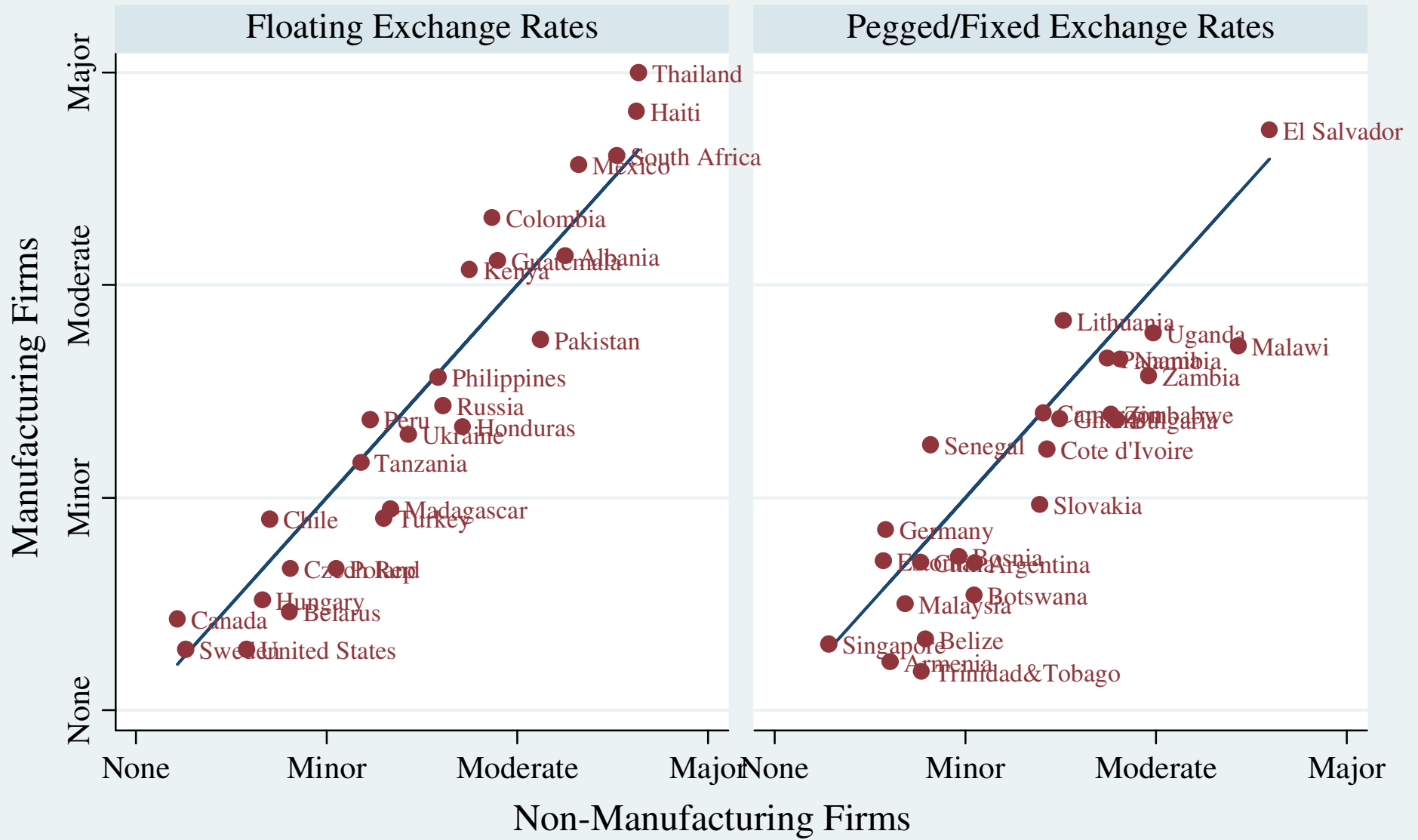


Graphs by Exchange Rate Regime



# How problematic is Organized Crime for... your business

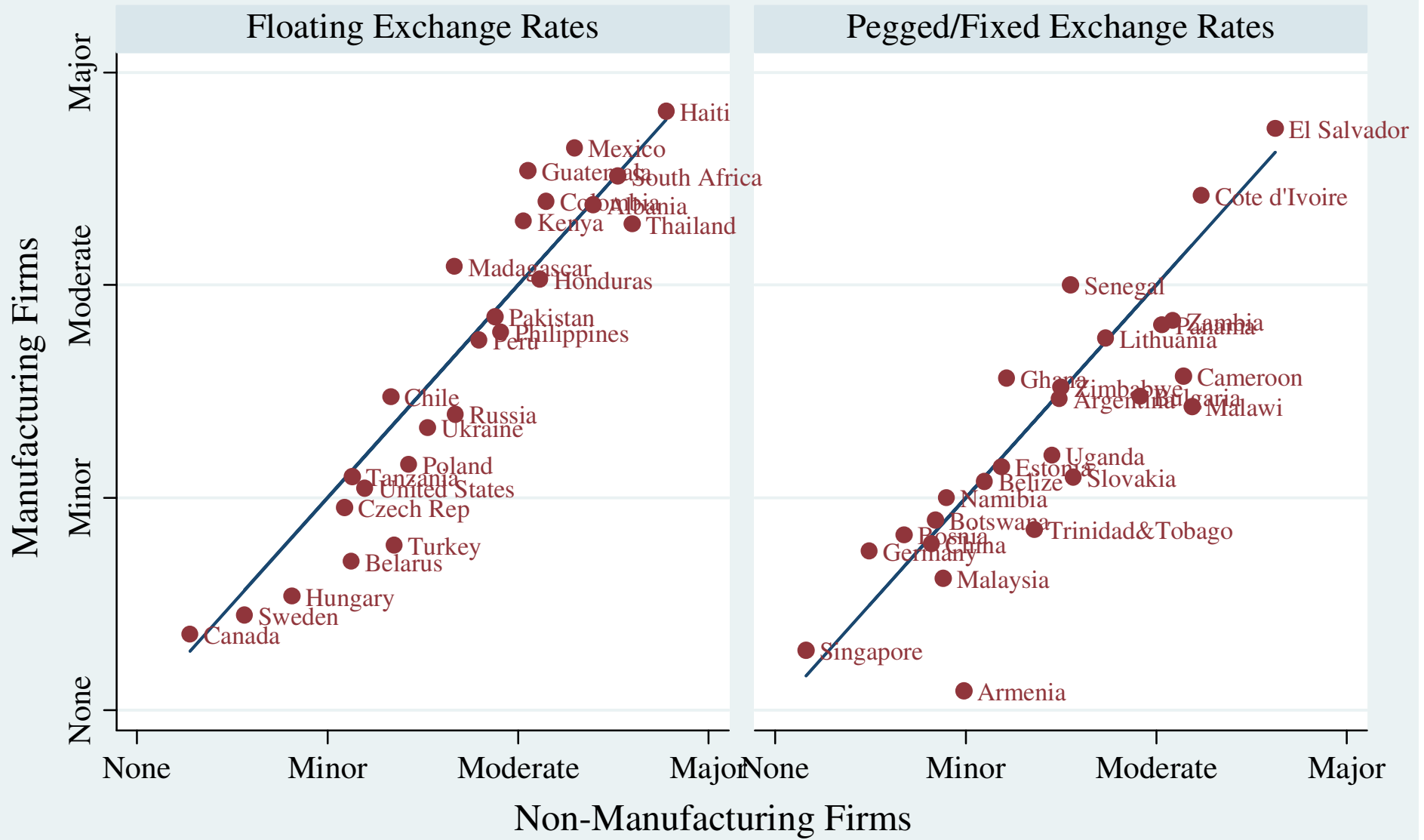
## Country Averages: Manufacturing v. Non-Manufacturing



Graphs by Exchange Rate Regime

# How problematic is Street Crime for... your business

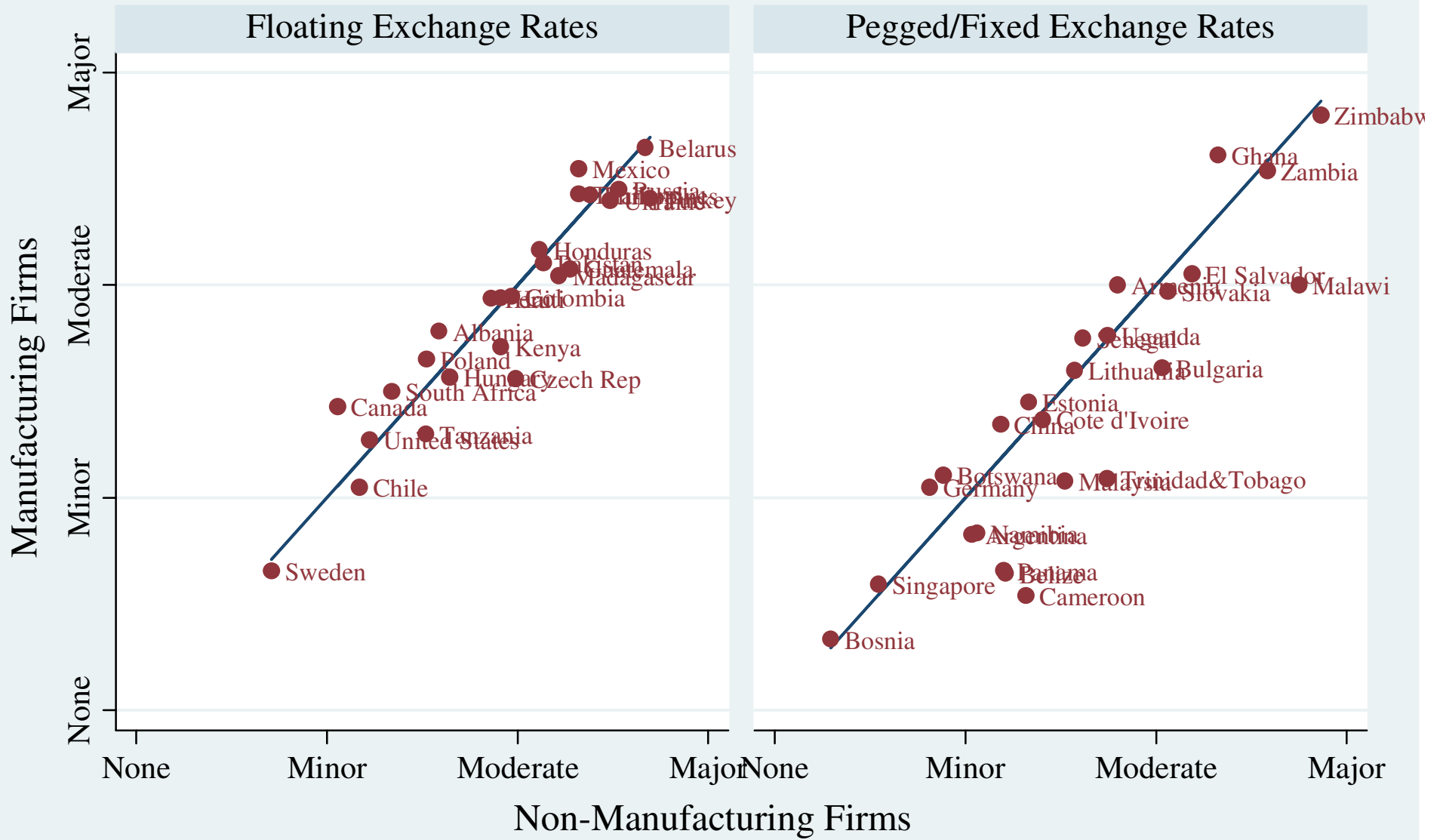
## Country Averages: Manufacturing v. Non-Manufacturing



Graphs by Exchange Rate Regime

# How problematic is Inflation for... your business

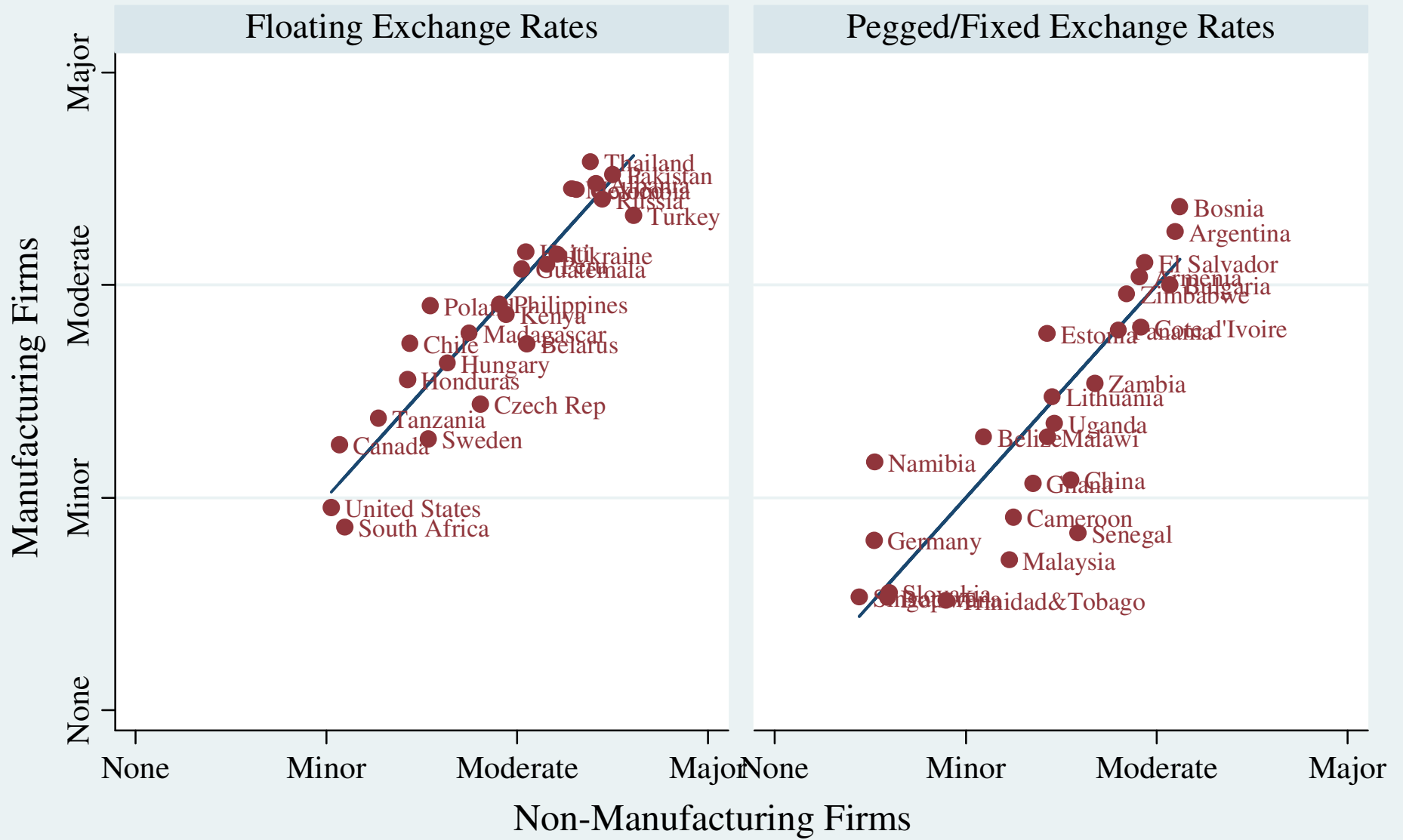
## Country Averages: Manufacturing v. Non-Manufacturing



Graphs by Exchange Rate Regime

# How problematic is Political Instability for... your business

## Country Averages: Manufacturing v. Non-Manufacturing



Graphs by Exchange Rate Regime

# A Complaint About Causal Inference

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## □ Motivation:

- ▶ “Exchange rate policy is constrained by contending economic interests and policy preferences, which makes it important to understand those interests and preferences.”

## □ But the authors aren’t concerned with endogeneity

- ▶ “As our dependent variables are responses of *individual* firm owners to a survey question about exchange rates, we are not overly concerned with endogeneity issues – it seems unlikely that such individual responses “cause” government exchange rate policies”

## □ Alternative interpretation

- ▶ Results reflect differential power of manufacturing v. non-manufacturing sector in determining exchange rate policy

# Conclusion

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- ❑ It is comforting that “stated preferences” are consistent with theory
  - ▶ Firms in tradable sector:
    - More likely to list exchange rate as a problem under floating rates
    - More likely to list exchange rate as a problem following real appreciation
- ❑ But if they weren’t consistent, do we learn about:
  - ▶ Political economy: Interest group pressure regarding exchange rates?
  - ▶ Behavioral economics: Whether firms understand their self-interest?
  - ▶ Survey methodology?
    - How likely is a manufacturing firm in New Jersey to list the exchange rate with Pennsylvania as problematic? (unlikely)
    - How likely is a manufacturing firm in New Zealand to list the exchange rate with Australia as problematic (very likely)
    - This paper would infer that firms in tradable sector prefer fixed exchange rates
    - Alternative inference: Salience of the exchange rate as a concerns depends on its variability