

Belief-Dependent Pricing Decisions

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- The paper explores price-adjustment decisions with a survey of firms' expectations in Uruguay.
- Evidence of price-setting frictions using micro-data is often based on time- and state-dependent models.
- The authors investigate a third channel (*belief-dependent*) as driver of price revisions.
- Probit model with *correlated random effects*.
- Selected results:
 - effect of expectations operates with a delay;
 - larger firms are better at forecasting inflation and more attentive;
 - larger firms change prices more frequently (but in smaller magnitudes) compared to small and medium size firms.

- Empirical investigation is carefully done and properly detailed.
- Robustness analysis (endogeneity, linear prob. model) provides convincing results.

Duration

- Build a "duration" variable using the last price change of each firm's main product.
- Substitute the 12 *Taylor dummies* (indicating whether the last price adjustment occurred between one and twelve months ago).

Control Variables

- Besides inflation expectations, macro variables often used to forecast inflation are not included, Stock and Watson (1999); Faust and Wright (2013); Coibion, Gorodnichenko and Kamdar (2017).
 - inflation persistency (emerging economies);
 - marginal cost (MP transmission);
 - exchange rate pass-through (export/import firms);
 - country risk-premium and other variables that impact inflation through the expectations channel.
- Which variables remain significant in the Probit model estimation is an empirical matter.

Monetary Policy

- *Inflation is high but stable* in Uruguay (8% p.y.)
- Role of monetary policy in Uruguay is not discussed in the paper.
- Inflation Targeting (IT) system is relevant to coordinate expectations.
- Control for the inflation target or range. Does the probability of price adjustment depend on the IT setup?

Policy Implications

- Explore policy implications of the *third channel* using the micro-data:
 - Permanent *versus* transitory effects on inflation.
 - How does the third channel affect the MP transmission mechanisms? (power of monetary policy and the CBU's ability to fight inflation).
 - Coordination of fiscal and monetary policies.