Discussion on Policy-Relevant Exchange Rate Pass-Through to U.S. Import Prices

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  - Selection biases in the entry of items in the basket of prices
  - Selection biases in the exit of items from the basket of prices.

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  - Include, say, 24 lags in monthly data
  - Monte-Carlo: Benefits are higher compared to costs

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  - Items that are less responsive to recent exchange rate movements than items already in the index.
  - The size of this bias is sensitive to the speed of pass-through.
  - Construct an alternative price index by delaying the entry of substitutes in the basket

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- Selection biases in the exit of items

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  - Further details are necessary from BLS to work on this

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- If any of the items are affected by lagged exchange rates, you may want to include as many lags just to capture the dynamics of these items.

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- Hence 24-lag series almost disappear in lag selection through AIC or SC

- But, can we still use 24 lags on weighted average to see the overall effects (for medium or long-run)?

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- I repeated this exercise with creating price series with many different exchange rate lags; the results were the same
- Hence, using sequential F-test can be an alternative solution.

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- More to learn from micro-prices