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EXCHANGE RATE PASS-THROUGH AND THE PRICES OF SELECTED NEW ZEALAND IMPORTS

Kevin John Heagney

1998

EXCHANGE RATE PASS-THROUGH AND THE PRICES OF SELECTED NEW ZEALAND IMPORTS

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Kevin John Heagney
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ABSTRACT

Estimates of pass-through for a range of resource inputs integral to the economic function of New Zealand, are calculated for the period 1988(I) to 1997(III). Estimations explaining the relationship (the pass-through effect) are reported for the five largest imports into the New Zealand economy. Estimates are run on a bilateral and disaggregated basis for imports from Australia, Japan, UK, and USA.

Bilateral investigation finds a partial first quarter response but does not find complete pass-through for all products, with coefficient values displaying unexpected correlations with the exchange rate. By comparison pass-through for the aggregated data is found to be complete and rapidly achieved. All small country assumptions are found to hold for New Zealand.

ACKNOWLEDGEMENTS

The method and approach taken for this paper is an amalgam of the concepts theoretical and empirical that are to be found within the mass of Pass-Through literature readily available for examination. The approach and methodology used are of a proven nature and go some way towards extending the already existing body of knowledge.

Bearing in mind that nothing in or of itself is entirely original in either concept or content, I hereby declare that any similarities to others' work is not therefore intentional, nor is it made with disregard to the formalities of academic research.

I acknowledge the support and guidance of my supervisor Professor Srikanta Chatterjee, and of my second supervisor, Dr. Claudio Michelini for his invaluable assistance with the econometric aspects of this study.

Lastly, the views expressed in this paper are those of the author and do not necessarily reflect the views of Massey University nor the Department of Applied and International Economics.

DEDICATION

There are many markers along the road to completion of a document such as this, some good and some less so but all undeniably bearable. Some have come with human shape, form, and thankfully, with senses outside of the physical alone. To those people, and the shared experience that has gone into the shaping of this paper, I say thank you.

That is the general, and now the specific, to the three most important people in my life George, Jack, and especially Amanda.

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