

On the Relationship between Pass-Through and Sticky Nominal Prices

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Abstract: A theoretical section draws a link between the conditions for low-pass through when there are flexible prices, and local-currency pricing when there are sticky nominal prices. The paper discusses how estimates of long-run pass-through must take into account short-run adjustment dynamics. Then simulations demonstrate the possible empirical biases in estimates of short-run and long-run pass-through and the speed of price adjustment.