

The Impact of Vertical Product Differentiation on Exchange Rate Pass-Through: An Empirical Investigation of IRON and Steel Industry between Thailand and Vietnam

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Abstract : This paper studies the market power and pricing behavior of products in iron and steel industry by investigating the impact of vertical product differentiation (VPD) on exchange rate pass-through (ERPT). Vietnam has become one of the major trading partners of Thailand since 2017. The iron and steel export value to Vietnam is more than \$300 million a year. Particularly, the average growth rate of importing iron and steel is approximately 30% per year. The VPD is applied to analyze the quality difference of iron and steel between Thailand and Vietnam. The 20 products in iron and steel industry are investigated. The monthly pricing behavior of Harmonized Commodity Description and Coding System 4-digit products is observed from 2010 to 2019. The Nonlinear Autoregressive Distributed Lag is also used to analyze the asymmetry of ERPT in this paper. The empirical results basically reveal an incomplete pass-through between Thai Baht and Vietnamese Dong. The ERPT also varies with the degree of VPD. The product with higher VPD, indicating higher unit values, has higher ERPT. This result suggests the higher market power of the Thai iron and steel industry. In addition, the asymmetry of ERPT exists.

Keywords : exchange rate pass-through, iron and steel industry, pricing behavior, vertical product differentiation

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