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Thesis Title: Does Exchange Rate Pass-Through Depend on Structural Characteristics?

Abstract (400-600 words, within one page of A4 sheet):

Under this topic, I empirically analyze the impact of structural characteristics on the degree of Exchange Rate Pass-Through (ERPT) to consumer prices for the number of 115 developing countries during 2005 to 2013. Mainly, two exogenous structural characteristics of developing countries i.e. “Landlockedness” and “Resource-Abundance” are in particular focus of this study. The analysis, by means of econometric methods and tools, gauges the degree of ERPT for three categories of developing countries including landlocked developing countries, resource-rich developing countries, and overall developing countries. It is assumed that the degree of ERPT as average is higher in overall developing countries as compared to developed world and, in the same vein, the degree is higher in landlocked developing countries and resource rich developing countries relative to the coastal and resource-poor developing countries. This macro-level cross-country analysis has provided the closest and highly reliable result, based on which, we can have a better understanding of the causal effect of the aforementioned structural characteristics on ERPT.

The estimation utilizes the first-differenced dynamic panel equation based on two-stage least square method (2SLS) and Macro-level data was used from WDI, UNCTAD, individual Central Banks, CSOs, WTO, and IMF.

Subsequently, the results illustrates strong empirical evidence that in overall developing countries the pass-through of nominal exchange rate is 0.315 percent as a result of one percent depreciation in nominal exchange rate. To have more discretion on structural factors in developing countries, we found geographical determinism and highly dependence on natural resource rents have exposed landlocked and resource rich developing countries to higher degree of exchange rate pass-through to consumer prices. The results show that on average 1 percent depreciation in nominal exchange rate in landlocked developing countries increases consumer prices by 1.079 percent and 0.757 percent in resource-rich developing countries as compared to coastal and resource-poor developing countries respectively.

The findings of this paper will help the monetary authorities of developing countries, in particular landlocked and resource-rich developing countries in design of the policies to counteract inflationary consequences as well as trade implications of nominal exchange rate shocks.