

[Download](#)

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Juan Esteban Carranza-Romero

Alejandra González-Ramírez

Juan Sebastián Vélez-Velásquez

Alex Pérez

The series [Borradores de Economía \(Working Papers on Economics\)](#) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date:

Tuesday, 20 June 2023

Abstract

The incomplete pass-through of exchange rates to prices is a well-documented phenomenon. Firms respond optimally to exchange rate shocks by adjusting margins and buying inputs from regions with more advantageous terms of trade. Consumers, in turn, substitute goods that become more expensive for relatively cheaper goods after an exchange rate shock. We use data from the market for new cars in Colombia to empirically analyze the determinants of incomplete passthrough after a large depreciation of the local currency. We estimate a structural oligopoly model that nests the optimal reactions of firms and consumers to assess their relative importance in explaining the lack of response of retail prices to the exchange rate shock. We find that, in relative terms, the most important factor explaining incomplete pass-through is consumer substitution, followed by strategic interaction between sellers.