

This PDF is a selection from a published volume from the  
National Bureau of Economic Research

Volume Title: Commodity Prices and Markets, East Asia Seminar  
on Economics, Volume 20

Volume Author/Editor: Takatoshi Ito and Andrew K. Rose, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-38689-9

ISBN13: 978-0-226-38689-8

Volume URL: [http://www.nber.org/books/ito\\_09-1](http://www.nber.org/books/ito_09-1)

Conference Date: June 26-27, 2009

Publication Date: February 2011

Chapter Title: Comment on "Pass-Through of Oil Prices to  
Japanese Domestic Prices"

Chapter Authors: Yuko Hashimoto

Chapter URL: <http://www.nber.org/chapters/c11881>

Chapter pages in book: (189 - 190)

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## Comment Yuko Hashimoto

This chapter examines the responsiveness of Japanese price indices to fluctuations in crude oil prices using various econometric methodologies. Shioji and Uchino find that the continued decline in the pass-through rate of oil prices to Japanese prices can mainly be explained by changes in cost structures in the Japanese manufacturing industry. That is, a decrease in oil prices has lowered the share of oil prices in the total cost and thus Japanese domestic prices have become seemingly less sensitive to fluctuations in oil prices. The authors conclude that this cheaper oil “price” effect explains more of the declining pass-through rate than the “quantity” effect, which captures a substitution between oil-related goods and nonoil related goods (i.e., consumers switch to nonoil goods when oil prices rise sharply and therefore retail prices are not affected as much from the oil price hike). This finding is consistent with the estimation exercise for the sample period up to May 2009 in that the recent oil price surge has clearly pushed up the pass-through rate to Japanese price indices. The authors also show that the existence of taxes has contributed to lower the gasoline and diesel price responses to oil price fluctuations. In other words, for a high oil import-dependent country like Japan, these taxes, among others, have also helped mitigate oil price shocks on retail prices and further maintain domestic price levels as relatively stable.

This chapter is very well written. The authors derive conclusions and

interpretations based on careful empirical examinations that are conducted over time and along the downstream of various products, using VAR, TVP-VAR, and I-O table analyses. This chapter has a huge potential to serve as material for policy discussions. Here I would like to add one suggestion for future work, probably for a completely new paper.

The authors could enrich the chapter, for example, with more in-depth analysis on Japanese firms' reaction to a supply shock based on figure 5.5. This figure shows very interesting facts: the responses of CPI-G(M) (CPI for manufacturing good) to an oil price shock at the end of sample period of 2009 are larger than responses of other intermediate products' prices. On the surface, this is not consistent with a presumption of a declining pass-through rate along with the product downstream. Usually, the pass-through rate from oil price shocks becomes smaller as weights of nonoil components (intermediate goods and nonoil items) in a price index become larger. And it is apparent in figure 5.5 that, until 2008, the pass-through rate becomes smaller for a price index of downstream products. However, only for 2009 estimations, the pass-through rate of CPI-G(M) shows a bigger jump than that of other "upper" stream price indices. Why? One possible story is the Calvo pricing; prices have been adjusted first at the retail sales level because of the uncertainty in the oil price movement in early 2009. It was unpredictable at that time how long the oil price surge would continue and to which extent the price would increase, so manufacturing industry/retail sectors did not incorporate this external shock into their prices for a while, otherwise they would lose price competitiveness (given that other firms and shops did not raise prices). However, as the oil price hike continued, these shops and firms had incurred losses and, finally, attempted to absorb this external shock by price changes. This drastic price change could have been reflected more sharply in the retail levels. So, one of the extensions of this chapter could draw implications about Japanese oil-related companies' behavior by examining reactions to an unperceived and (believed) temporally oil price shock—probably by passing it on to consumers.

## **Comment** Donghyun Park

I read this chapter with a great deal of interest because in 2008 I wrote a joint paper on the pass-through of the global oil and food price shocks to domestic consumer prices in nine countries in developing Asia: namely, China, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand, and

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