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Comment Cayetano Paderanga Jr.

Introduction

I would like to thank the National Bureau of Economic Research and the Hongkong University of Science and Technology for inviting me to this conference. I found this chapter quite enjoyable and informative, and I would like to commend the authors for writing a chapter with important policy implications for Taiwan and with probable applicability of the same

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or similar models to other countries. The lessons learned here could be tremendously useful for emerging economies.

Structure of the Chapter

The chapter creatively exploits distinct developments in economic modeling to estimate the impact of oil and commodity prices on domestic inflation and, after that, consumption and economic structure. It utilizes methods used by De Gregorio, Landerretche, and Neilson (2007) and the International Monetary Fund (2008) to trace the price pass-through from the global markets to the domestic economy. Using a three-step approach, the chapter first estimates the price pass-through using VAR regressions. Second, it uses a macroeconometric model to estimate the impact on key macro variables. Finally, it traces the impact on the whole economy and on various sectors by using the input-output tables and the consumer demand system estimated through the almost ideal demand system (AIDS).

Initial Lessons

The findings in the chapter by themselves already provide some very useful insights for other countries. For example, the authors extract some results from comparison of the price pass-through for Taiwan and compare it to those of the two polar ends in the IMF study; that is, the highest-income and the lowest-income countries, finding that Taiwan, being a midlevel income economy, also experienced a midrange price pass-through. Some of the other results of the chapter regarding the relationship of Taiwan's price pass-through to some structural features of the economy provide valuable lessons for others. I only included some possible extensions as more of wish list for others who may implement a similar exercise for their own countries.

On the Price Pass-Through

The estimation of the pass-through for Taiwan and the subsequent comparison with results of similar measurement for economies at various levels of development, in a previous study, already provide important lessons for other countries. The study finds that Taiwan is in the middle of the IMF range of countries, confirmed by analogy to stages of structural variation in income per person and food and total expenditure, that the results are reasonable. It attributes the actual estimated variation in price pass-through to the level of industrial development of Taiwan. Perhaps the addition of more control variables such as the use of relatively more flexible production technology, depth of the financial markets to hedge price volatility, macroeconomic policy interventions, or degrees of concentration in key industries to the extent possible with available data could have added even more dimensions to the lessons from the estimated pass-through coefficient. Inclusion of these relevant control variables could have an effect on the time-lag and the pattern of the estimated pass-through. The study has already shown the importance of control variables by explicitly recognizing the output-gap in the pass-through estimation from domestic price index to core CPI.

Second, on the Simulation Exercise

The study uses an econometric model estimated for the period 1987 to 2008 to estimate the impact of the price pass-through on major macroeconomic variables. Then it uses a combination of an almost ideal demand system (AIDS) estimated for 1987 to 2007 and input-output tables for 1997 and 2007 to distribute the impact to the various sectors.

One possible extension of the study would be to explicitly recognize the possibility of structural change during the period by either: (a) introducing appropriate dummy variables to capture changes in intercepts and/or slopes over the period, or (b) estimating separate macroeconometric and AIDS models for at least two separate subperiods. There seem to be enough observations to estimate these separate models (even allowing for some overlap in the middle part of the period). This could improve the precision and even provide more elaboration on the impact of the price pass-through on the industrial structure. For the input-output tables, I wonder if the study could have elicited more inferences if it explicitly recognized the changes in structure and incorporated these into the analysis along the lines of Chenery-Syrquin (1975).

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Comment Arianto A. Patunru

This chapter by Kuo and Peng is very promising. It is one of the few that examines global commodity price pass-through into an individual country. It therefore lends itself to further elaboration and integration with other instruments to assess the country's response to global price fluctuation and its likely impacts on household and industrial behavior in the respective country. Thus far the literature on similar pass-through analysis approach has

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