Online Borders of the U.S. Dollar: Price Stickiness and Exchange Rate Sensitivities

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Abstract

This paper, exploiting the cross-border trade transaction-level data of a leading U.S. online marketplace, provides novel evidence that the Dollar-RMB exchange rate pass-through into the online U.S. import prices can be large (medium run pass-through of 45 percent) and the convergence to a complete pass-through is fast (half-life six months) even when all trades are settled in U.S. dollars. These results complement the evidence found in the studies using offline survey data in favor of the "privileged insularity" of U.S. dollar. Our findings suggest that the U.S. dollar, one of the dominant invoice currencies in international trades, can become increasingly sensitive to exchange rate fluctuations when more cross-border trades can be settled over the virtual borders. In addition, we find that the price adjustment frequency of online import prices are significantly higher than that of the import prices at the dock (approximately 40 % online vs. 9% offline). With sizeable heterogeneity of the price adjustment frequencies and the magnitudes of exchange rate pass-through across the disaggregated categories, higher price stickiness is associated with lower long run exchange rate pass-through, even conditional on price changes.

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