

# Investment, Pass-through and Exchange-Rates: A Cross-Country Comparison

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## ABSTRACT

Although large changes in real exchange rates have occurred during the past decades, the real implications of these movements remain an empirical question. Using detailed data from the United States, Canada, the United Kingdom, and Japan we examine the implications of exchange rates for time series of sectoral investment. Both theoretically and empirically we show that investment responsiveness to exchange rates varies over time, positively in relation to sectoral reliance on export share and negatively with respect to imported inputs into production. The quantitative importance of each of these channels of exposure is a function of a set of exchange-rate pass through and demand elasticities. There exist important differences in investment endogeneity across high and low markup sectors, with investment in low markup sectors significantly more responsive to exchange rates. Unlike pass-through elasticities, which are viewed as industry-specific, investment endogeneity to exchange rates is a country-specific phenomenon.

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