General Discussion*

Michael Devereux thanked the discussants and offered the following comments regarding:

- **the value-added of the first model relative to the second:** the model works nicely and is therefore interesting to open-economy macroeconomists.

- **calibration:** it could be refined, but given the model's simplicity, calibration is not very important, the simplification being that firm prices were assumed not to be functions of the state variables.

- **other determinants of pass-through:** they were significant but both microeconomic and macroeconomic approaches were possible. The macroeconomic side is important to look at because of the high inflation, high pass-through relationship.

- **the presence of the term F in the price-setting mechanism:** while it was not needed in the Calvo case, it was necessary in this model; otherwise, the frequency of price adjustment would be infinity.

- **local-currency pricing:** if there were none, there would be no need to consider infrequent price adjustments. Devereux acknowledged, however, that it would be beneficial to have an intermediate case analysis where local and foreign-currency pricing are considered. This, however, was not feasible in the paper.

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- **the pass-through coefficient > 1:** it occurs because there are many different shocks in the model, and because the exchange rate jumps a lot with transitory shocks. He added that their estimates were rough and that there was no need to control for other things, such as GDP per capita (which they had tried).

Regarding the reaction function, Nicholas Rowe felt that the interest rate is a function of inflation but not of the exchange rate. Thus, the model reveals what happens to pass-through if the central bank allows for it. But, in reality, the central bank does not allow for it.

Devereux agreed with Rowe and added that delta increases as the central bank's reaction to inflation increases, and that the pass-through tends to zero.