

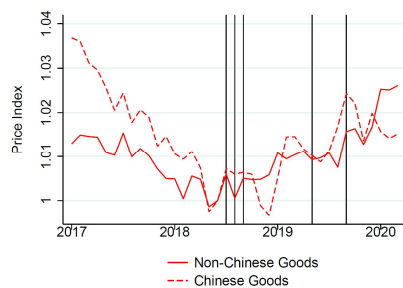
Exercise 1: Tariffs and Passthrough

Paper: “Tarriff Passthrough at the Border and at the Store: Evidence from US Trade Policy” by Cavallo, Gopinath, Neiman, and Tang, *AER Insights*, 2020

Objective: Modify the replication code to show that Chinese and Non-Chinese goods had similar price trends after the tariffs. The solution graph should be similar to Figure 3a in the paper, but with only 2 price indices (with no distinction between affected and not affected categories.) Then try this separately for Retailer 1 and Retailer 2.

Steps:

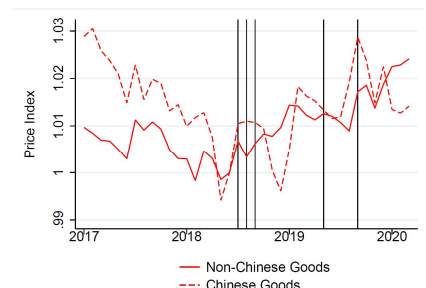
- 1) Download the replication data from <https://doi.org/10.7910/DVN/JV7FCH>
- 2) Open the do file “RETAIL\CODE\main_china_index_month.do” and modify it to compute and graph the required indices. You will also need to understand and run the do file called RETAIL\MAIN_RETAIL.do
- 3) Your graphs should look similar to these:



Both Retailers



Retailer 1



Retailer 2

Exercise 2: Law of One Price

Paper: “Currency Unions, Product Introductions, and the Real Exchange Rate” by Cavallo, Neiman, and Rigobon, *Quarterly Journal of Economics*, 2014

Objective: Replicate Figure V for Apple (page 551 of QJE paper). You can ignore the red line in the original graphs.

Steps:

- 1) Download data from <https://doi.org/10.7910/DVN/NV26Z6>

Two files are needed. CNR_QJE_apple.dta (price data) and long_exchange.dta (exchange rates)

- 2) Load the price data, merge the exchange rates. Note that the exchange rate file has usdx (us dollars per currency x), where x is the country in that particular row of the data.

- 3) Note that to replicate Figure V, you need to compute **q with respect to Spain** (j is country "es"). So you will first **need to transform the exchange rate data to obtain the bilateral rate between each country and the euro**.
- 4) Compute q, the good level real exchange rate, as defined in section III of the paper. Note that in that equation the variable "e" is defined as the log the units of currency i per each unit of the euro.
- 5) To match the figure, drop observations where the absolute value of $q \geq 0.75$.
- 6) Create a loop that generates a histogram of q for each country, save each individual graph. With STATA's hist command, use options "bin(100) percent".
- 7) Create a combined graph for countries at, dk, de, fi, fr, ie, it, nl, no, pt, se, us.

Solutions

The solution code for both exercises are provided on the course website.