

Summary

Forthcoming, *Review of International Economics*

Effects of a Free Trade Agreement on the Exchange Rate Pass-Through to Import Prices

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January 2011

This paper investigates the effect of trade liberalization on the exchange rate pass-through (ERPT) to import prices. To do so, it employs an empirical estimation of the effects of NAFTA on the Mexican ERPT, and uses a Ricardian general equilibrium model. The model identifies two channels that explain how the trade liberalization alters the ERPT. The first channel is the direct relationship between the tariffs and the pass-through by good. The second channel is the effect that tariffs have on the composition of imports, altering indirectly the aggregate pass-through.

Keywords: *Ricardian model, exchange rate pass-through, NAFTA.*

JELS F31 and F41.

* I thank Hugo Rodríguez, Timothy Kehoe, Víctor Ríos-Rull, Juan Carlos Conesa, and an anonymous referee for helpful comments.