Referee Report on “Measuring Long-Run Exchange Rate Pass-Through” by Olivier de Bandt, Anindya Banerjee, Tomasz Kozluk

This article makes an interesting contribution to the literature on exchange-rate pass-through, arguing that a long-run cointegrated relationship between import unit values, the exchange rate, and foreign prices can be identified if one allows for the possibility of structural breaks.

The analysis is careful and the exposition clear. I have several suggestions to improve the article.

1. The authors argue on page 5 that the standard estimation method in the literature is "single-equation autoregressive distributive lag models". This does not characterize the empirical literature appropriately. Following the work of Feenstra (1989) many papers in the literature have foresaken the distributed lag models for simpler models which impose less structure on the lags. This statement sets up the ARDL model as a sort of straw man, and should be rewritten.

2. The discussion and conclusions should be split into two sections. At present, it makes for a rambling and unwieldy conclusion.

3. Work by Bill Alterman has shown that the use of unit values significantly distorts pass-through coefficients in standard pass-through regressions. What are the implications of his work for the paper's findings? I suggest testing the same long-run cointegrated relationship for an industry in which you observe prices, as a robustness check.

4. The authors' argument that the structural break they identify is not a data artifact should be elaborated.

5. The authors assert the superiority of their empirical approach without addressing some of the weaknesses of the structural break methods they employ. More discussion is needed of problems these techniques have: What if the timing of the structural break is wrong, or if there are multiple structural breaks over the sample period? The one sentence discussion of this issue on p. 30 is insufficient. A fuller development of structural-break models and how they work is needed.

6. A longer discussion is needed on how this analysis will inform the debate and what needs to be done with the pass-through models that are currently being used by central banks, the IMF, and so on.

7. The literature review, especially as it relates to microeconomic pass-through models, is thin. The discussion on pages 30 and 31 may want to tie this paper's results to previous work by Goldberg and Verboven (2001), Campa and Goldberg (2006), Goldberg and Tille (2006), and Gopinath, Itskhoki, and Rigobon (2007). Some discussion should be mentioned regarding the debate over whether pass-through has fallen in recent years. For example, the footnote that mentions the Federal Reserve Marazzi et al's specification including commodity prices should also mention the critique of this paper by Hellerstein, Daly, and Marsh (2006), which is consistent with this paper's results, as are some of the results in Campa and Goldberg (2006).