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Response of Domestic Price Changes to Exchange Rate Movements in China

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Abstract: Based on a simultaneous-equation model, this paper reveals that if the CNY/USD exchange rate rises 1 percentage point, the inflation rate in China would increase by 0.3394 percentage points. In addition, increase in government borrowing as a percent of GDP, a higher growth rate of M2 money, a higher U.S. inflation rate, a higher growth rate of the oil price and a higher expected inflation rate would raise China's inflation rate. Therefore, partial exchange rate pass-through is confirmed.

Keywords: Exchange Rate Pass-Through, Exchange Rates, Consumer Prices, Money Supply, Crude Oil Prices

JEL Classification Number: F31, F41

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