



School in Social Sciences

PhD Programme in Economics & Management

Guest Lecture

Prof. Francesco Nucci
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"Exchange Rates and Wage Adjustment: A Firm-Level Investigation"

Thursday November 17, 14.30h

DISA Meeting Room, Faculty of Economics, Via Inama 5

Francesco Nucci

is Full Professor of Economic at the University of Rome La Sapienza. He holds a Ph.D. in Economics from Columbia University and his areas of expertise are empirical macro and international economics. He has published in leading scholarly journals including the Journal of International Economics; Journal of Money, Credit and Banking; European Economic Review; Journal of Banking and Finance; Applied Economics and Economic Modeling. He is associate editor of Applied Economics and Applied Economics Letters and he is a member of the scientific board of the *Rivista di Politica Economica*. Before joining academia he worked as Economist at the Research Department of the Bank of Italy. He has also been involved in economic policy advice and consulting projects for a number of institutions including the Italian Treasury Department, the Italian Government and the World Bank.

A detailed cv can be downloaded from http://w3.uniroma1.it/DCNAPS/nucci/CV_English_new.pdf

Abstract

A substantial body of empirical literature uncovers non-negligible effects of exchange rate movements on the real economy. Some contributions, for example, document that currency swings significantly affect firm's investment (Campa and Goldberg, 1999 and Nucci and Pozzolo, 2001) as well as employment and hours (Nucci and Pozzolo, 2010). As for these labor market effects, however, the latter finding contrasts with previous evidence by Campa and Goldberg (2001) on a weak employment response to exchange

rates coupled with significant implications for real wages. Differently from Campa and Goldberg and most other studies in this area of literature, Nucci and Pozzolo use firm- rather than industry-level data and provide arguments for why the level of disaggregation of the data may affect the estimated impact on employment to a considerable extent. The present paper relies on the same microeconomic data and seeks to investigate how real wages at the firm level responds to exchange rate variations, thus complementing the Nucci and Pozzolo (2010)'s analysis along a parallel dimension.

In this paper we rely on a representative panel of manufacturing firms and estimate the implications for firm-level wages of changes in the permanent component of the exchange rate. The direction and size of wage adjustment is shaped by the external orientation of each firm on both the sale and cost side of the balance sheet. Through the revenue side, wages are shown to rise after a currency depreciation and the effect is estimated to be larger the higher is the firm's exposure to sales from exports. On the contrary, a depreciation induces a cut in firm's wages through the expenditure side of the balance sheet and the effect is larger the higher is the incidence of imported inputs on total production costs. We show that, for a given degree of firm's external orientation, the sensitivity of wages to exchange rate swings is larger for firms with a lower market power. We also document that other transmission channels provide a degree of difference in shaping the effect of exchange rates on wages. These include: a) the degree of sectoral import penetration in the domestic market; b) the extent of inputs substitutability in firm's production; c) the percentage of newly hired workers in each firm in a given year and d) the composition of the firm's labor force by type