Report No.	HIAS-E-52
Title	Real Exchange Rates and Currency Regimes: Implications from 1972 Okinawa Reversion
Author(s)	Kazuko Kano[(a)] Takashi Kano[(b)]
Affiliation	(a) Musashino University (b) Hitotsubashi University
Issued Date	August 2017 (Revised in December 2017)
Abstract	In this paper we argue that the historical event of the reversion of Okinawa to the Japanese sovereignty in May 1972 can be utilized as a relevant natural experiment for estimating effects of different currency regimes on product-level real exchange rate adjustments. Before and after the reversion Okinawa experienced three different currency regimes: fixed exchange rate, flexible exchange rate, and common currency regimes. Our monthly sample of retail prices of a variety of individual products sold in retail stores in Okinawa and mainland Japan around the reversion finds that the flexible exchange rate regime deteriorated product-level real exchange rate adjustments in a statistically and economically way, while the common currency regime had no clear impact on them. The results of this paper, hence, support new Keynesian models equipped with sticky local currency pricing that predict incomplete pass-through from nominal exchange rates into domestic retail prices.
Keywords	
JEL	