

“Misallocation, Dollars, and Aggregate Productivity”

Abstract

Measured aggregate productivity comoves with the exchange rate, though in standard models external prices have no first-order effect on measured productivity. This paper argues that the comovement reflects reallocation across firms, and builds it from two documented features of the data: markups differ across firms, and cross-border prices are sticky in the currency they are invoiced in, overwhelmingly the dollar. The first makes production misallocated before any shock: low-markup firms, which face the most elastic demand, produce too much relative to the efficient allocation. The second means that when the home currency depreciates against the dollar, the price of dollar-invoiced imports rises across the board. The spending this diverts from imports flows most strongly to the most price-sensitive sellers, the low-markup firms: firms already producing too much produce still more, misallocation deepens, and the measured residual falls with no change in technology. We take the mechanism to Chilean firm-level administrative data, with cross-country evidence in support.