# Cross-Country Relative Price Volatility: Effects of Market Structure

**Yin-Wong Cheung**
University of California Santa Cruz

and

**Eiji Fujii**
University of Tsukuba

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## Summary

One intriguing price behavior is the resilient variability exhibited by the exchange-rate-adjusted relative prices of similar goods across countries. The existing empirical literature suggests that a large portion of cross-country relative price variability is not explained by factors including nominal exchange rate variability and distance. Motivated by a standard markup pricing formulation, we examine the role of market structure as a determinant of cross-country relative price variability. Using data on nine manufacturing sectors across eighteen OECD countries, we reveal considerable evidence of market structure effects on both cross-country relative price volatility itself and its components. The reported market structure effects are robust to some common control variables considered in the literature. Results from subsample analyses and alternative sample specifications also affirm the presence of market structure effects. In sum, the exercise highlights the relevancy and importance of market structure effects on relative price variability. It is noted that there is a non-negligible portion of cross-country relative price variability unaccounted for by the factors considered in the current exercise. It is conceived that other factors including costs of traded and non-traded inputs, and differences in distribution systems and inventory management methods may affect cross-country relative price variability. Future research on the other potential determinants of relative price variability across countries is warranted.