Sectors, Savings, and Shady Deals: Exchange Rate Preferences in Developing Countries

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Research Questions

1. **What** explains exchange-rate preferences of individuals?
   - Dominant theories:
     - Sector-based preferences
     - Sociotropic-based preferences
   - But:
     - Salience of exchange rates low to most citizens
     - Mostly North-centric evidence

2. **Who** can influence individuals’ preferences over monetary policy?
   - Role of IOs
   - Little evidence about domestic-international interactions
Inflation and Savings-Based Theory

- In DCs, hedging against inflation > benefits to any sector of employment
- Pref. over exchange rates and capital controls are about inflation (not international transactions)
- Weaker black market rate → fear of inflation
- Test: survey experiment in Argentina
Argentina

- Exchange-rates are very high salience
  - Repeated currency and banking crises
  - Since 2011: currency control
  - Elections in 2015 hinged on capital controls and exchange rates (Macri vs. Scoli)

- Individuals are informed
  - Black market (dolar blue) very widely used
  - Divergence between dolar blue and official rate is recorded
Predictions

- Weaker exchange rate $\rightarrow$ higher fear of inflation
- Higher fear of inflation $\rightarrow$ higher probability of support for pro-liberalization candidate
- Gaps between *dolar blue* and official rate linked to distrust of peg (for those who use black market)
Survey Design

- Questions to determine blue market use, savings behavior, international orientation of place of employment
- Survey experiments
  - Questions on exchange-rate regime preference, varying in type of information about inflation.
  - Predictions
    - More savings → stronger demand for currency liberalization
    - More worried about inflation → stronger demand for currency liberalization
    - Questions on exchange-rate regime preference, varying in source of information about inflation
  - Politicians, IMF, Mercosur, Pope Francis
Other Surveys

- Survey data (LAPOP)
  - **DV**: Inflation is the highest concern
  - **Indep Var**: black market exchange rate
  - **Controls**: income, education, gender, ideology, Kirchner support, region FE, time trend
  - LPM, logit, with clustered s.e.

- Our earlier survey:
  - **DV**: intention to vote for Macri (pro-reform)
  - **Indep Var**: Inflation is the highest concern
  - Similar models

- In the future: survey experiment on (Inflation) → (X-rate policy preference)
**DV**: Pr(Inflation is the highest concern)

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<th>LPM</th>
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When x-rate weakens by one point: worry about inflation increases by 2-4%
**DV**: Pr(Vote for Macri)

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People who fear inflation are $\sim 11\%$ more likely to want the candidate who will liberalize access to USD.
Conclusion

- Need more evidence to pin down the role of inflation
- Some groups (middle class) more likely to fear inflation
- Survey experiment to assess mechanism
- Big question: who do people listen to when considering reforms?
**DV**: Pr(Inflation is the highest concern)

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Results are robust for public employees