economics letters

Economics Letters 57 (1997) 127–128

Erratum

Erratum to "Exchange rate expectations and market shares" [Economics Letters 55 (1997) 61–67][1]

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The Publisher regrets that a page of the manuscript of this article was inadvertently omitted. The missing text is reproduced in full below, and should have appeared in the Results section after the reference to footnote 6 and before the final Proof.

Proposition 2. A purely anticipated depreciation of the home currency leads to a decrease in the domestic firm's market share.

Proof. See Appendix A. ■

The intuition for this result is analogous to that in Proposition 1, if somewhat simpler. A purely anticipated depreciation implies an increase in the domestic firm's expected future profits, and a decrease in the foreign firm's expected future profits. This creates a positive slack in the domestic firm's no-deviation constraint, for the promised reward from no-deviation is now higher than before. Consequently, it is possible to reduce the domestic firm's output without violating the no-deviation constraint.

The opposite effect occurs with the foreign firm's no-deviation constraint. Since future expected profits along the equilibrium path are lower as a result of the appreciation of the foreign currency, the foreign firm has now a greater incentive to deviate – it has less to lose. Thus, to maintain tacit collusion, it is necessary that the foreign firm be allowed to produce a higher output.

Corollary 1. The effect of a permanent depreciation of the home currency is smaller than the effect of a purely temporary depreciation.

Proof. The effect of a permanent depreciation of the home currency is simply the sum of the effects of a purely temporary depreciation and of a purely anticipated depreciation. ■

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[1] *PII* of original article: S0165-1765(97)00043-8

PII S0165-1765(97)00251-6

Corollary 2 (seemingly perverse effect). Suppose the current and the expected future exchange rates shift in the same direction. If the shift in the latter is sufficiently greater (in absolute value) than the shift in the former, then the domestic firm's market share increases (decreases) when the current spot rate appreciates (depreciates).