

Exchange rate movements and productivity: Evidence from Japanese manufacturing firms

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Abstract

This paper presents a North-South firm-heterogeneity model with trade and two types of horizontal FDI in the short-run equilibrium, and examines the effect of exchange rate movements on the cutoff productivity of each type of firm and industry-wide productivity. The effect of home currency depreciation on industry-wide productivity is uncertain in a purely theoretical analysis, but our empirical analysis using Japanese firm-level data during 2010-2015 suggests that the depreciation lowers average productivity in manufacturing industry.

Keywords: Exchange rate; FDI; firm heterogeneity; productivity; panel data; path-through

JEL Classification codes: F1; F2

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