**The Effect of Exchange Rate Changes and Firm heterogeneity on the Japanese Manufacturing Exports[[1]](#footnote-1)\***

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Abstract

This paper examines the effects of exchange rate changes and firm heterogeneity on manufacturing exports. Using the dataset of the Japanese manufacturing firms during the period, 2002 – 2012, we discuss if exchange rate fluctuations deter export activities and if productivity and markup differences affect it. For this study, we estimate both firm specific productivity and markups by the production function based approaches and incorporate them into the Heckman sample selection model. Our results reveal that appreciation of Japanese yen usually gives different impacts on exports by industry. The relations between exports and firm heterogeneity are also varying across industries. Some industries have negative effects of productivity on exports unlike the prediction by the Melitz model. Those findings imply that we need to carefully consider differences in trade structure by industry to devise effective trade policy.

JEL Codes: F1, F31

1. \* This work was supported by JSPS KAKENHI Grant Number 25380338. [↑](#footnote-ref-1)
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