Transmission of monetary policy with firm entry

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Abstract

The paper argues the way with which monetary policy transmits to other countries which take various exchange rate regime. With firm entry, fluctuations in the nominal exchange rate or changes in production for countries taking fixed regime are smaller due to demand reallocation via extensive margins. Welfare gain increases as well with firm entry and that gain can be further intensified with simultaneous entry inducing policy. A smooth release of the third arrow of Abenomics is hoped from this point of view.

Keywords: firm entry, product diversity, exchange rate system

JEL classification: E22, E52, L16

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