

# Accepted Manuscript

Financial Market Integration, Exchange Rate Policy, and the Dynamics of Business and Employment in Korea

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PII: S0889-1583(16)30029-6  
DOI: [10.1016/j.jjie.2016.09.002](https://doi.org/10.1016/j.jjie.2016.09.002)  
Reference: YJJIE 939

To appear in: *Journal of The Japanese and International Economies*

Received date: 16 February 2016  
Revised date: 20 September 2016  
Accepted date: 26 September 2016

Please cite this article as: Matteo Cacciatore , Fabio Ghironi , Yurim Lee , Financial Market Integration, Exchange Rate Policy, and the Dynamics of Business and Employment in Korea, *Journal of The Japanese and International Economies* (2016), doi: [10.1016/j.jjie.2016.09.002](https://doi.org/10.1016/j.jjie.2016.09.002)

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**Highlight**

- We study the consequences of international financial market integration and exchange rate policy for Korea.
- We use a calibrated medium-scale model with endogenous producer entry and frictions in labor markets.
- Under flexible exchange rates, financial integration increases the volatility of business creation, but effects on employment are modest.
- Pegging the exchange rate can have unfavorable consequences for the effects of terms of trade appreciation.
- A floating exchange rate with internationally complete markets is the best scenario for Korea among those we focus on.

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