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Laura Povoledo

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Laura Povoledo\*

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## Abstract

The empirical evidence on the role of trade openness in the monetary transmission is not conclusive: some studies find that it increases the sensitivity of output to monetary shocks, others find that it does not. Using a New Keynesian open economy model, I show that the role of trade openness in the transmission of monetary shocks can be reversed completely by the degree of exchange-rate pass-through into import prices. If the pass-through is complete, traded output increases more than nontraded output after a positive monetary shock, if the pass-through is zero, traded output increases less. Moreover, ignoring sectoral heterogeneity in price rigidity leads to an incorrect assessment of the role of trade openness in the transmission of monetary shocks.

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\*University of the West of England  
University of the West of England, Coldharbour Lane, Bristol BS16 1QY, United Kingdom. Tel: 0044 117 32 83723. Email: Laura.Povoledo@uwe.ac.uk.

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