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Multinationals, Intrafirm Trade, and Employment Volatility*

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Abstract

This paper examines the theoretically ambiguous relationship between the volatility of employment growth and the foreign exposure of a firm. We use unique firm-level data for Japan for the period 1994–2012, which allow us to examine the differences between 1) multinational firms, trading firms, and nontrading firms; 2) manufacturing and wholesale & retail trade; and 3) intrafirm and interfirm trade. One of the major findings is that, in manufacturing, the effect of exports on the volatility of employment varies, depending on the share of intrafirm exports to total sales. In contrast, in wholesale & retail trade, exports do not have significant effects on employment volatility. The results suggest that intrafirm trade transmits the effects of foreign demand and supply shocks differently between manufacturing and wholesale & retail trade.

Key words: Employment volatility; Multinational firm; Intrafirm trade; Wholesale and retail trade

JEL classification codes: F1; F16; L25; L81

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