

# **Evaluating Exchange Rate Management An Application to Korea**

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## **Summary**

This paper uses data-rich estimation techniques to study monetary policy in an open economy. We apply the techniques to a small, forward-looking model and explore the importance of the exchange rate in the monetary policy rule. This approach allows us to discern whether a monetary authority targets the exchange rate *per se*, or instead simply responds to the exchange rate in order to achieve its other objectives. The approach also removes a downward bias on the estimate of the extent of inflation targeting. We find that this bias is important in the case of Korea, a *de jure* inflation targeter. In contrast to previous studies, our findings suggest that the Bank of Korea actively targets inflation, not the exchange rate. Apparently, the exchange rate has been only indirectly important in Korea's monetary policy.