Exchange Rate Volatility and International Trade

By:

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Abstract

This paper discusses the relationship between exchange rate volatility and International Trade by incorporating the determinants of Trade explained by International Trade Theory (GDP, Inflation, Exchange Rate and Exchange Rate Volatility) and developing a model to test the results empirically. Annual data from 1970 to 2010 is used to test the relationship. In contrast to the widely held beliefs, exchange rate volatility wasn't found to be in a significantly negative relationship with international trade. Moreover, the behaviour of variables is found different for developing and developed sample set of economies. GDP is the most significant variable in Developed parts of the world whereas inflation out of the geological boundaries of developing country is found to be the most significant variable in International Trade. Moreover, strong presence on non-economic factors is also observed in the set of developing economies.

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Dedication

I dedicate this research to all the economists who endeavoured the road of knowledge with the aim of making this world a better place to live.

Contents