

Exchange Rate Volatility and International
Trade



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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 geographical 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

Abstract.....	i
Acknowledgement.....	ii
Dedication.....	iii
1. INTRODUCTION.....	1
1.1 BROAD PROBLEM AREA/BACKGROUND	1
1.2 RATIONAL OF THE STUDY	5
1.2.1 Motivation for research problem	5
1.2.2 Importance of proposed work	5
1.2.3. PROBLEM STATEMENT	6
1.3 THEORETICAL FRAMEWORK	6
1.4 OBJECTIVES OF THE STUDY	9
2. LITERATURE REVIEW.....	10
2.1 EXCHANGE RATE CHOICES FOR Developing COUNTRIES ...	13
2.1.1 Pakistan	15
2.1.2 China	18
2.1.3 South Africa	19
2.2 EXCHANGE RATE CHOICES FOR Developed COUNTRIES	21
2.2.1 Germany	24
2.2.2 JAPAN	26
2.2.3 France	27
2.2.4 USA	28
2.3 Models of the impact of exchange rate volatility on international trade flows	30
2.3.1 Risk aversion and risk neutrality	30
2.3.2 Nature of Trader	32
2.3.3 Capital markets	34

2.3.4 Time Horizon	34
3. METHOD.....	36
3.1 Collection of Data	36
3.2 Sources of Data	36
3.3 Calculation of volatility	40
3.4 Procedure	40
4. Results and Discussion.....	44
4.1 South African Exports	45
4.2 South African Imports	46
4.3 Chinese Exports	47
4.4 Chinese Imports	49
4.5 Pakistani Exports	50
4.6 Pakistani Imports	52
4.7 Summary Stats	53
4.8 Frances Exports	54
4.9 Frances Imports	55
4.10 German Exports	56
4.11 German Imports	58
4.12 Japanese Exports	60
4.13 Japanese Imports	61
4.14 Summary Stats	62
5. CONCLUSION.....	66
6. Bibliography	68