Does Higher Openness Cause More Real Exchange Rate Volatility?

César Calderón, Megumi Kubota

PII: S0022-1996(17)30098-3
Reference: INEC 3071

To appear in: Journal of International Economics

Received date: 17 April 2017
Accepted date: 20 August 2017

Please cite this article as: Calderón, César, Kubota, Megumi, Does Higher Openness Cause More Real Exchange Rate Volatility?, Journal of International Economics (2017), doi:10.1016/j.jinteco.2017.08.002

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.
Does Higher Openness Cause More Real Exchange Rate Volatility?*

César Calderón, Megumi Kubota

* The World Bank, USA  b OECD, France

First Version: March 2007
This Version: April 2017

Abstract

Our study investigates the factors driving RER volatility and the properties of both trade and financial openness to stabilize RERs. Therefore, this paper guides us to formulate better economic policies to lower RER variability. Our goal is to test whether the extent and composition of international trade and financial integration would smooth the impact of shocks to the RER for 82 countries from 1974 to 2013. Our findings support existing theoretical models (Obstfeld and Rogoff 1995; Hau 2000). They confirm empirically that the composition of trade and financial openness matters for RER stabilization. We show that trade in manufacturing helps reduce RER volatility while non-manufacturing trade may contribute to higher RER volatility. Financial openness mitigates (amplifies) RER volatility in a country with higher (lower) share of foreign equity vis-à-vis foreign debt liabilities. A greater share of equity in external liabilities can improve the country’s resilience to external shocks (Rogoff 1999). Consequently, policies to lower RER volatility should account for a) the composition of financial openness as measured by the type of capital flows (i.e. equity vs. loan-related) accumulated in the domestic economy and b) the role of the structure of trade (i.e. manufacturing vs. non-manufacturing) in the transmission process of shocks to the RER. Our evidence relates to findings of mitigating effects on sudden stops of trade openness (Cavallo and Frankel 2008), and equity- rather than debt-related financial openness (Levchenko, and Mauro 2007, Calderón and Kubota, 2013).

JEL Classification: F31, F41, C23

Key Words: Real Exchange Rate Volatility, Openness, Panel Data

* We are grateful to Eduardo Cavallo, Menzie Chinn, Maurizio Habib, Miguel Leon-Ledesma, Gian-Maria Milesi-Ferretti, Peter N. Smith and Michael Wickens as well as participants in the Second Open Macroeconomy and Development Conference at the Université de la Méditerranée and the 2008 Royal Economic Society Annual Conference for their comments and suggestions. This paper initially circulated with the title “Are real exchange rate fluctuations more volatile in more open economies?” We also thank Phillip Lane for providing us the updated dataset of external wealth of nations. The usual disclaimer applies. The views expressed in this paper are those of the author, and do not necessarily reflect those of the World Bank, the Organisation for Economic Co-operation and Development (OECD) or its Boards of Directors. Calderón: The World Bank, Office of the Chief Economist of the Africa Region (AFRCE). E-mail: ecalderon@worldbank.org. ** Corresponding author. Kubota: OECD, Asia Desk, Development Centre. E-mail: megumi.kubota@oecd.org.
دریافت فوری
متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات