

Is There An "Internationalization Effect" On Exchange Rates?

Forecasting exchange rates (Prévision de taux de change)

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The proposal of work to do will consist of analyzing how a higher degree of openness to the international community affects exchange rates. With this purpose in mind, the paper will examine the behaviour of certain countries' exchange rates in response to events which have implied for these nations a political and economic transformation while reaffirming their belonging to the international community. The results obtained should show if there is some sort of particular effect on exchange rates and of which type, when these processes of change take place.

Different situations will be examined. They are the following ones:

- Entrance into a supranational economic area.
- Entrance in an international organization.
- Elimination of international restrictions to trade.

The countries whose exchange rates' behaviour will be analyzed in order to assess the impact that the entrance into a wider economic area has had on them, are all European countries who have joined the European Community at different moments in time over the last years. They are Finland, Estonia and Poland. They represent a mix of small and big countries. The methodology to apply will consist of analyzing their exchange rates' values along different periods of time:

- a year before entering the European Community
- two months prior to the entrance
- six-months after the entrance

The reference currencies whose bilateral exchange rates will be analyzed are DM/euro, US Dollar, Sterling Pound and Japanese Yen.

The examination of the effect of the entrance into an international organization will be done reviewing the case of China and its entrance into the WTO. Currencies whose exchange rates will be used as reference will be the same as above as similar will also be the periods of time to consider.

The assessment of the effect that the elimination of restrictions on international trade may have on exchange rates' behaviour will be done examining the experience of South Africa with the elimination of the apartheid. Reference currencies and periods of time will be the same that for the previous cases.

For all the situations, fluctuations in exchange rates will be evaluated and results will be analyzed in order to obtain conclusions, principally oriented to identify potential features in common, something like a distinguishable "internationalization effect" with specific characteristics.

The relevance of the issue is high as similar processes to the ones examined here can take place in the future. The globalization of current economies and the increasing ruling intervention from supranational institutions are established trends in the societies.