

The Real Exchange Rate Fluctuations Puzzle: Evidence for Advanced Economies *versus* Transition Economies

Amalia Morales-Zumaquero
Department of Economics^{*}, University of Málaga and centra^{**} (Spain)

Abstract

This paper tries to analyze the sources of the real exchange rate fluctuations for a set of advanced economies ?during the sample 1970:1 to 2000:1 and during the, so called, transition period from 1991:1 to 2000:1? and Central and Eastern European transition economies ?during the transition period. To address this, in a first step, we compute two measures of the share of the variance of the real exchange rate accounted for movements in the relative prices of traded goods between the countries. One measure is based on R^2 coefficient and the other one is based on the mean-squared error (MSE) of the changes in the real exchange rate. In a second step, we estimate structural (identified) vector autoregression (SVAR) models, and decompose real and nominal exchange rate movements into those caused by real and nominal shocks. In a third step, we complete previous ones with an impulse-response analysis. Three central messages are derived from results: (1) for transition economies, under regimes of managed nominal exchange rates, the relative price of non-traded goods explain a large percentage of the variance of the real exchange rate; (2) there is evidence of instability in the variance decomposition of the real exchange rates for advanced economies across samples, and (3) as result of diverse fiscal and monetary policies in transition economies, real exchange rates in some economies are driven mostly by real shocks while in others are driven mostly by nominal shocks.

JEL: C50, F31, P52

Keywords: real and nominal exchange rates, SVAR models, advanced economies, transition economies, real and nominal shocks

^{*}Amalia Morales Zumaquero. Department of Economics. Facultad de Ciencias Económicas y Empresariales, Campus de El Ejido s/n, Universidad de Málaga (Spain), 29013, Málaga. Tel. 34-95-2134146. Fax 34-95-2131299. E-mail: amalia@uma.es

^{**}centra: Fundación Centro de Estudios Andaluces.