

On the Trade Impact of Nominal Exchange Rate Volatility

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Abstract

What is the effect of nominal exchange rate variability on trade? I argue that the methods conventionally used to answer this perennial question are plagued by a variety of sources of systematic bias. I propose a novel approach that simultaneously addresses all of these biases, and present new estimates from a broad sample of countries from 1970 to 1997. The answer to the question is: Not much.

Key words: Exchange rate volatility, Trade, Gravity equation, Heteroskedasticity, Poisson regression, Instrumental Variable.

JEL Codes: C21, F10, F11, F12, F15

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