

# **Analyzing the impact of real exchange rate volatility on export flows**

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This paper examines short-term volatility in the real effective exchange rates of five developed and five developing countries and its impact on their real exports with data for the floating rate period. We use three separate versions of volatility each of which is based on different formation of expectations; first, conditional variances of the real effective exchange rates obtained from GARCH models; second, the standard deviation of the real effective exchange rates obtained from a log-linear trend equation; third, the standard deviation of the percentage change in the real effective exchange rate. A panel data fixed effects model is used to examine the effects of volatility measures on export flows of developed and developing countries. The results obtained in this paper suggest that increases in different volatility estimations of real exchange rates based on different formation of expectations do have similar negative effects on real export flows across developed and developing countries. This paper differs from many of the papers previously published in two major ways. First, trends and cross-country differences in short-term volatility of selected developed and developing countries are analyzed by employing the most recent developments in the measurement of exchange rate volatility. Second, the paper sheds additional light on the effect of exchange rate volatility on trade as focusing on whether estimations of exchange rate volatility based on different expectations can have different impacts on export behavior of developed or developing countries.

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