

EXCHANGE RATE VOLATILITY AND EXPORTS: EVIDENCE FROM A SMALL OPEN ECONOMY

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ABSTRACT

The study investigates the impact of exchange rate volatility on Mauritian total exports as well as exports directed to major trading partners for the period 1975-2011. Given that not all the variables in the model were stationary to the same level, the ARDL approach was used to estimate the effect of exchange rate uncertainty on exports. Bilateral real exchange rate, exchange rate volatility, relative price, and foreign economic activity affect total exports in short run as well as the long run. A negative relationship between volatility and level of exports was observed in the long run and the short run. The analysis was then extended by considering the case of a panel consisting of the major trading partners. The fixed effect model estimated a negative but insignificant relationship between exchange rate volatility and exports.

Keywords: