HOW DO AMERICAN EXPORTS TO JAPAN REACT TO EXCHANGE RATE VOLATILITY? A NONLINEAR ERROR CORRECTION INVESTIGATION

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ABSTRACT

This paper uses a smooth transition regression (STR) model to investigate how the short run dynamics of the demand for U.S. exports from Japan are affected by exchange rate volatility. The paper departs from the conventional approach taken in the literature, by not including a variable for the exchange rate volatility into the long run export demand function. Instead, volatility is investigated as a transition variable, which impacts export demand by changing the size of the coefficients in the error correction model.

Keywords: *Export demand, exchange rate volatility, nonlinear error correction models, smooth transition regression, Japan, United States.*