Measuring shocks to exchange rate under floating regime

Authors: T.Brahmasrene, and K. Jiranyakul

Suggested Citation:
Brahmasrene, T., and Jiranyakul, K., 2004, "Measuring Shocks to Exchange rate under Floating Regime," *Journal of Economics and Economic Education Research*,Vol. 5, No. 2, pp. 53-68.

Abstract

The effect of nominal and real shocks to real exchange rates under floating exchange rate system was examined. The real exchange rates in this study were measured in terms of domestic currency relative to the U.S. dollar. Thailand was used as an event study during the economic crisis. Ever since the floating exchange rate system was in effect in the third quarter of 1997, some policymakers have called for policies designed to keep the exchange rate within the target range. A vector autoregression (VAR) was employed to investigate the joint behavior of real and nominal exchange rates in order to identify the nominal and real shocks that caused fluctuations in the real exchange rate. Based upon the results of a bivariate VAR model, the impulse response functions showed that real shocks had a thriving impact on changes in real exchange rates in the twelve- month forecast horizon. Furthermore, variance decompositions revealed that real shocks were much more robust than nominal shocks during the period under study.

Keywords: Exchange rates, VAR, Shocks

Publisher: The DreamCatchers Group, LLC.