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**Research Article** 

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# The economics of exchange rate volatility asymmetry

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# Abstract

One commonly observed feature of financial market volatility is the presence of asymmetry whereby shocks to the market do not generate equal responses. This phenomenon has been attributed to the leverage effect for stock markets. For exchange rates, asymmetry has also been documented with no economic reason apparent. In this paper, a hypothesis is proposed and tested which attributes the presence of asymmetric responses in exchange rate volatility to the intervention activity of the central bank. Using daily intervention data for the Reserve Bank of Australia, empirical evidence is presented in support of this hypothesis which suggests that intervention may do more harm than good in volatile markets. Copyright © 2002 John Wiley & Sons, Ltd.

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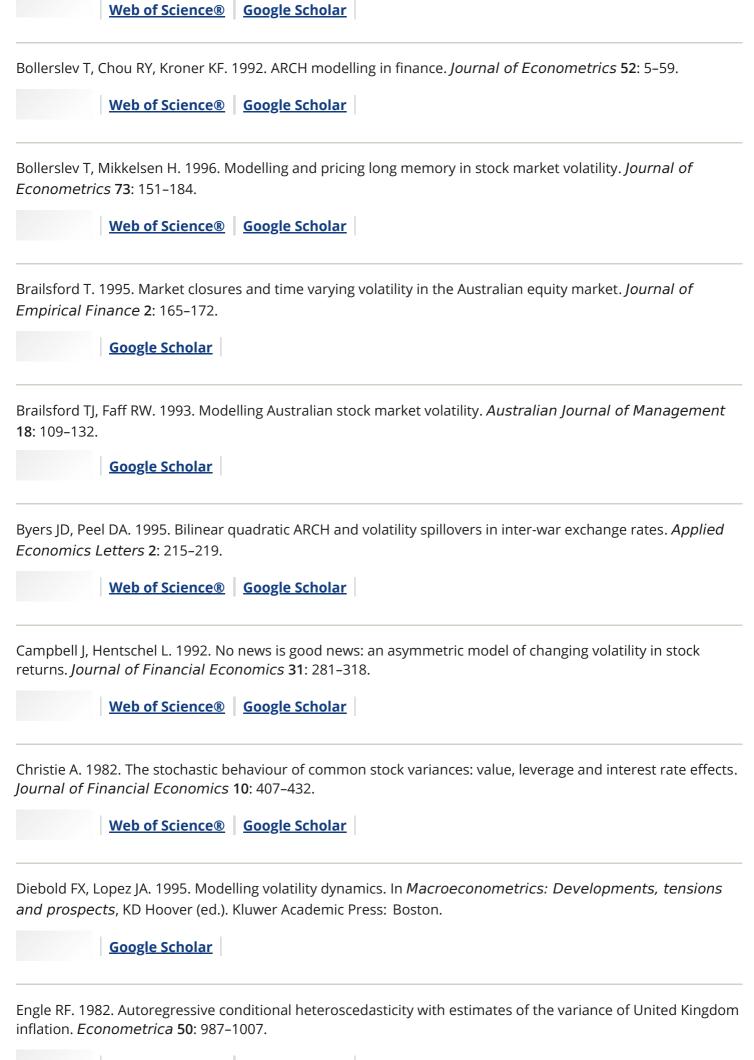
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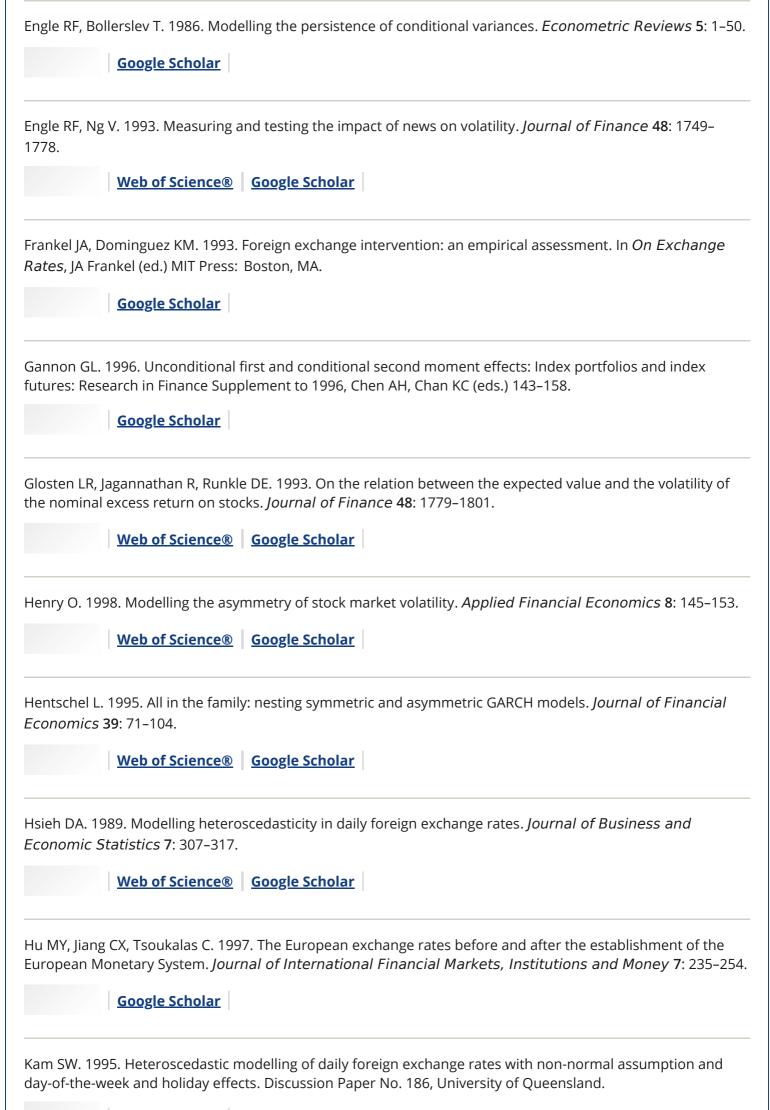
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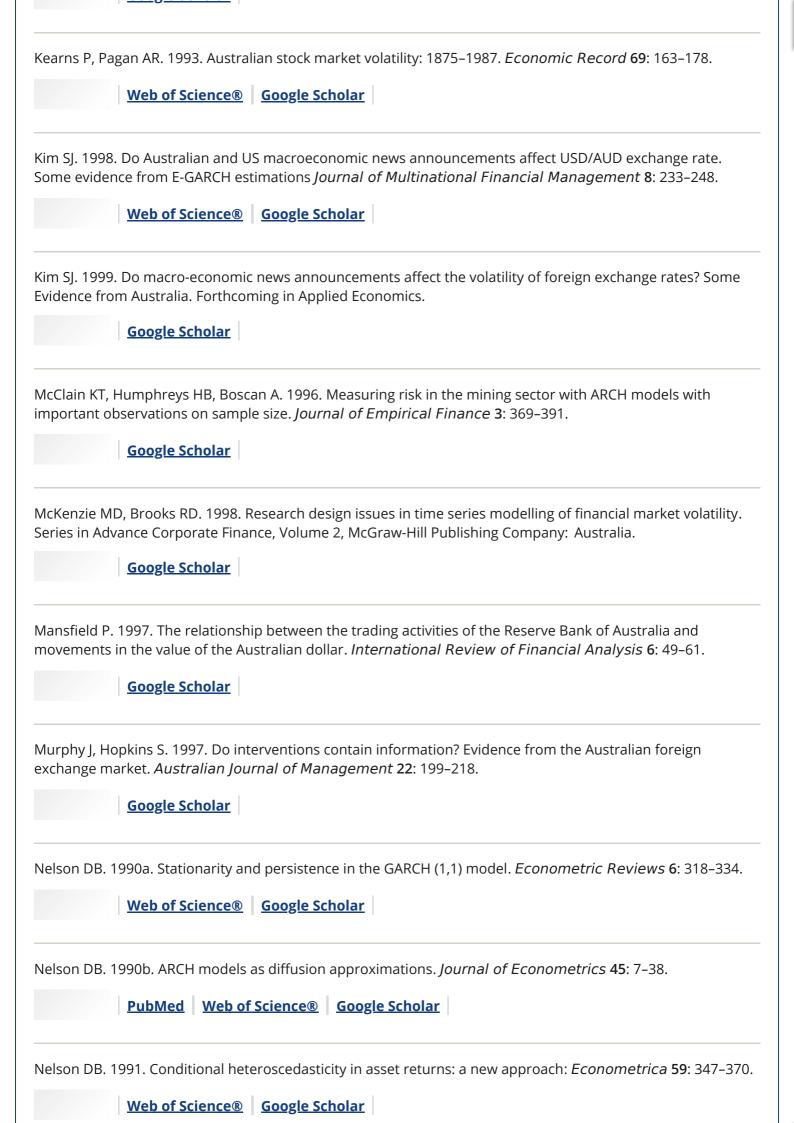
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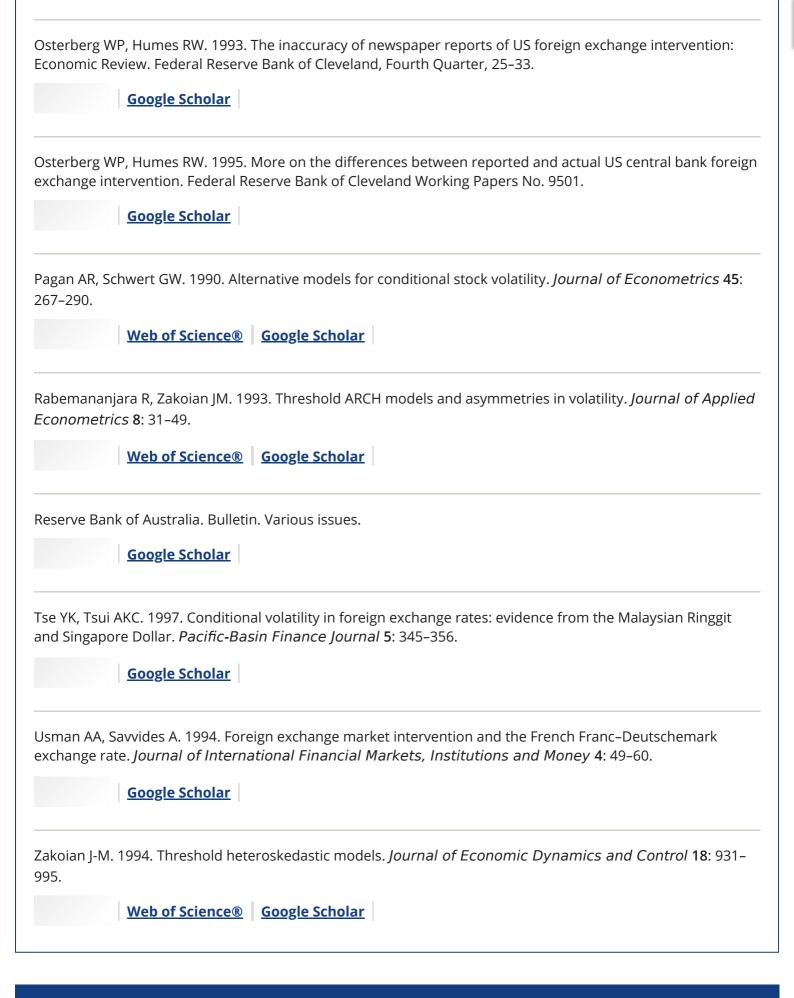


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