

[Working Papers](#)

Gravity in FX R-Squared: Understanding the Factor Structure in Exchange Rates

Hanno Lustig & Robert J. Richmond

SHARE   

WORKING PAPER 23773

DOI 10.3386/w23773

ISSUE DATE September 2017

We relate the risk characteristics of currencies to measures of physical, cultural, and institutional distance. The currencies of countries which are more distant from other countries are more exposed to systematic currency risk. This is due to a gravity effect in the factor structure of bilateral exchange rates: When a currency appreciates against a basket of all other currencies, its bilateral exchange rate appreciates more against the currencies of distant countries. As a result, currencies of peripheral countries are more exposed to the systematic variation than currencies of central countries. Trade network centrality is the best predictor of a currency's average exposure to systematic risk.

[Download a PDF](#)

[Information on access](#)

Acknowledgements and Disclosures



Download Citation



Related

TOPICS

[International Economics](#)
[International Finance](#)
[Financial Economics](#)
[Financial Markets](#)

PROGRAMS

[Asset Pricing](#)
[International Finance and Macroeconomics](#)
[International Trade and Investment](#)

More from NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Retirement and Disability](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online [conference reports](#), [video lectures](#), and [interviews](#).



15th Annual Martin Feldstein Lecture:

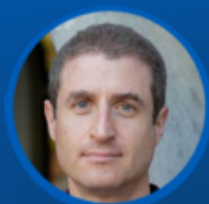
The Next Flight of the Bumblebee: The Path to Common Fiscal Policy in the Eurozone

Mario Draghi, former President, European
Central Bank and former Prime Minister, Italy
Summer Institute, 2023

2023, 15th Annual Feldstein Lecture, Mario Draghi, "The Next Flight of the Bumblebee: The Path to Common Fiscal Policy in the Eurozone"

LECTURE

Dr. Mario Draghi, who served as President of the European Central Bank and Prime Minister of Italy, presented the 2023...



Methods Lecture:

Linear Panel Event Studies

Jesse M. Shapiro, Harvard University and NBER

Liyang Sun, CEMFI

July 28, 2023

2023 Methods Lectures, Jesse Shapiro and Liyang (Sophie) Sun, "Linear Panel Event Studies"

Overview: Linear panel event studies are increasingly used to estimate and plot causal effects of changes in policies...



Panel Discussion:

Long-Term Dynamics of the Employment-to-Population Ratio

Karen Glenn, Social Security Administration
Stephen Goss, Social Security Administration
Nicole Maestas, Harvard University and NBER
Julie Topoleski, Congressional Budget Office
July 26, 2023

2023, SI Economics of Social Security, Panel Discussion, "Long-Term Dynamics of the Employment-to-Population Ratio"

Supported by the Alfred P. Sloan Foundation, the National Science Foundation, and the Lynde and Harry Bradley...

FOLLOW



National Bureau of Economic Research

[Contact Us](#)

1050 Massachusetts Avenue
Cambridge, MA 02138

[617-868-3900](tel:617-868-3900)
info@nber.org
webaccessibility@nber.org

[HOMEPAGE](#)

© 2024 NATIONAL BUREAU OF ECONOMIC RESEARCH. ALL RIGHTS RESERVED.