

[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



Citation and Citation Data



Related

TOPICS

[International Economics](#)

[International Finance](#)

[Financial Economics](#)

[Financial Markets](#)

PROGRAMS

[Asset Pricing](#)

[International Finance and Macroeconomics](#)

[International Trade and Investment](#)

More from the 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 Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online [conference reports](#), [video lectures](#), and [interviews](#).



Martin Feldstein Lecture, Summer Institute 2025
The Fiscal Future

N. Gregory Mankiw, Harvard University and NBER
July 10, 2025

2025, 17th Annual Feldstein Lecture, N. Gregory Mankiw, "The Fiscal Future"

FELDSTEIN LECTURE

PRESENTER: N. GREGORY MANKIW

N. Gregory Mankiw, Robert M. Beren Professor of Economics at Harvard University, presented the 2025 Martin Feldstein...



Methods Lecture, Summer Institute 2025
**Uncovering Causal Mechanisms:
Mediation Analysis and
Surrogate Indices**

Raj Chetty, Harvard University and NBER
Kosuke Imai, Harvard University
July 24, 2025



2025, Methods Lecture, Raj Chetty and Kosuke Imai, "Uncovering Causal Mechanisms: Mediation Analysis and Surrogate Indices"

PRESENTERS: [RAJ CHETTY](#) & [KOSUKE IMAI](#)

SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs...



2025, International Trade and Macroeconomics, "Panel on The Future of the Global Economy"

PANEL DISCUSSION

PRESENTERS: [OLEG ITSKHOKI](#), [PAUL R. KRUGMAN](#) & [LINDA TESAR](#)

Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

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](#)

[Accessibility Policy](#)

[Diversity Policy](#)

[Privacy Policy](#)

FOLLOW



© 2025 NATIONAL BUREAU OF ECONOMIC RESEARCH. ALL RIGHTS RESERVED.