Journal of International Economics
Volume 15, Issues 1–2, August 1983, Pages 45-63

The effects of real exchange rate risk on international trade

David O. Cushman *

https://doi.org/10.1016/0022-1996(83)90041-7

Abstract

By assuming real profit maximization, and uncertain prices as well as exchange rates, we conclude that it is uncertain percentage changes in the real exchange rate that are risky in international trade. Empirical estimation of fourteen bilateral trade flows among industrialized countries finds a significant negative effect on trade quantity from such risk in a number of these cases. The expectation variable has a positive effect in a larger number of cases. Significant price effects from the expectation variable are fewer and from risk are negligible.

References (20)

Sven Grassman
A fundamental symmetry in international payements patterns
Journal of International Economics (1973)

Peter Hooper *et al.*
The effect of exchange rate uncertainty on the prices and volumes of international trade
Journal of International Economics (1978)

Clas Wihlborg
Currency risks in international financial markets

Robert Z. Aliber

The firm under pegged and floating exchange rates

Scandinavian Journal of Economics (1976)

Bela Balassa

Regional monetary integration of the developing countries: Comment

David P. Baron

Fluctuating exchange rates and the pricing of exports

Economic Enquiry (1976)

Stanley W. Black

Floating exchange rates and the conduct of macroeconomic policy

(1977)

Peter B. Clark

Uncertainty, exchange risk, and the level of international trade

Western Economic Journal (1973)

Peter B. Clark *et al.*

Flexible exchange rates and the level of trade: A Preliminary analysis of the Canadian experience

(1972)

Donald V. Coes

The crawling peg and exchange rate uncertainty

There are more references available in the full text version of this article.

Cited by (217)

Exchange rate volatility and import of intermediate inputs: Evidence from Chinese firms

2022, International Review of Economics and Finance

> *Citation Excerpt :*
>
> …However, the findings and conclusions from the existing research are inconclusive. Some studies find a negative relationship, e.g. Héricourt and Poncet (2013), Berthou and Fontagné (2013), and Li and Miao (2017); while some find that exchange rate fluctuations have a positive or insignificant effect e.g., Bahmani-Oskooee and Hegerty (2007), Cushman (1983), Daly (1998), Gagnon (1993), Greenaway et al. (2010), Huchet and Korinek (2011), Qiu et al. (2019), Solakoglu et al. (2008), Sercu and Vanhulle (1992), Tenreyro (2007), Wang and Barrett (2002), and Zhang et al. (2006); and the rest find a non-linear effect of exchange rate fluctuation, i.e., Baum et al. (2004), Berman and Berthou (2009), and Chen and Juvenal (2016), or heterogeneous results with different samples, i.e., Baum et al. (2004), Sauer and Bohara (2001) and Senadza and Diaba (2017). Sauer and Bohara (2001) find a negative effect for developing countries (expect Asian countries), but an insignificant effect for industrialized countries.…

Show abstract

Effects of the business cycle on real exchange rate misalignments with respect to exchange rate regimes

2022, International Economics

Show abstract

Asymmetric impact of capital controls on international trade

2022, Journal of Economic Asymmetries

> *Citation Excerpt :*
>
> …Our investigation identified three distinct channels that could potentially mitigate or aggravate the effects of capital control actions on international trade.1 First, the exchange rate is a key variable in international trade and affects both imports and exports (Cushman, 1983). Certainly, any change in the value of currencies will stimulate or constrain commercial and financial transactions of goods and services by affecting relative prices.…

Show abstract

On the asymmetric effects of exchange rate uncertainty on China's bilateral trade with its major partners

2022, Economic Analysis and Policy

Show abstract

Producers, consumers, and value chains in low- and middle-income countries

2022, Handbook of Agricultural Economics

Show abstract

Exchange rate induced export quality upgrading: A firm-level perspective

2021, Economic Modelling

> *Citation Excerpt :*
>
> …In this paper we study how firm-level (import and export) product quality responds to exogenous exchange rate fluctuations. In doing so, we build on many studies link exchange rate to trade flows and prices, Cushman (e.g., 1983); Dell (e.g., 1999); Mc Kenzie (e.g., 1999); Forbes (e.g., 2002); Malick and Marques (2008, 2010); Cheung et al. (2009); Thorbecke and Smith (2010); Berman et al. (2012); Cavallari and D'Addona (2014); Li et al. (2015); Chen and Juvenal (2016); Bahmani-Oskooee and Aftab (2017); Smallwood (2019). More specifically, we follow recent theory highlighting the role of input quality Kugler and Verhoogen (2012, e.g.) and Hallak and Sivadasan (2013), and we argue that exogenous currency appreciation may lead firms to upgrade their export quality by shifting to previously more expensive, but higher quality, imported intermediate inputs.…

Show abstract

View all citing articles on Scopus ↗

---

* This paper is based on part of the author's Ph.D. dissertation at Vanderbilt University. The author wishes to thank Stanley Black, Cliff Huang, Andrea Maneschi, and the other members of his dissertation committee, as well as an anonymous referee, for helpful suggestions made at various stages of the research. I am also grateful to Peter Hooper for providing his data set and other research assistance at the Federal Reserve Board. However, these parties bear no responsibility for remaining errors.

View full text