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Exchange-rate uncertainty and workers' remittances

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Abstract

A panel of nine Western Hemisphere nations is employed to test the proposition that the remittances of immigrants respond to risk variables, in particular to exchange-rate uncertainty. To estimate annual exchange-rate uncertainty, a nonparametric estimator based on monthly exchange rate returns is used. Also the instrumental variables procedure of Pagan and Ullah (Journal of Applied Econometrics, 3, 87–105, 1988) is employed to insure that the conclusions are robust to possible error in the measurement of exchange-rate uncertainty. The results give credence to the ‘new economics of migration’ approach which argues that immigrants are highly motivated by portfolio variables.

Notes

[1] The terms immigrant worker and migrant worker are used interchangeably. While the term 'migrant worker' is often reserved for workers who move from one geographic region to another within one country to take advantage of the availability of work, the terms migrant and immigrant worker are used here to refer to individuals who are working in a country other than their country of origin.

[2] This is reminiscent of the political risk variables (probability of the imposition of capital controls) that was popular in the earlier international finance literature. (See for example Dooley and Isard, 1980.)

[3] The single index t in the US variable recognizes that this variable is time variant but invariant across individual countries.

[4] $E_{it} = (S_{it} * CPI_{US,t})/CPI_{it}$ where S_{it} is the nominal exchange rate (in home currency units per US dollar). CPI_{it} and $CPI_{US,t}$ are the consumer price indexes in the home country and in the USA.

[5] Volatility, whether predicted or not, is sure to raise economic costs to agents transacting in the market, but the costs are certainly greater in the case of unanticipated movements of the same magnitude.

[6] with

[7] with .

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