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Applied Economics Letters ›
Volume 12, 2005 - Issue 15

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# Change in unconditional foreign exchange rate volatility: an analysis of the GBP and USD price of the Euro from 2002 to 2003

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Pages 929-932 | Published online: 20 Aug 2006

Cite this article https://doi.org/10.1080/13504850500378189

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## Abstract

Unconditional foreign exchange rate variance is generally assumed to be constant in analysis of foreign exchange rates. It is noted that there is evidence of a change in unconditional foreign exchange rate variance during the two-year period surrounding the Iraq war, January 2002 to December 2003, for the GBP price of the Euro, although not for the USD price of the Euro. This has implications for the indiscriminate use of models that assume constant unconditional variance, such as the GARCH family of models, in the analysis of foreign exchange rates.

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