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EXCHANGE RATE VOLATILITY AND INTERNATIONAL TRADE FLOWS IN SUB- SAHARAN AFRICA: EMPIRICAL EVIDENCE

ABSTRACT

In this article, the authors examine the relationship between the volatility in exchange rates and the volume of international trade in sub-Saharan African countries. Using the gravity equation and annual data for the period 1998-2007, they find a statistically significant and negative correlation between the volatility in exchange rates and the volume of trade. The estimated elasticities show that the responsiveness of the flow of international trade to changes in exchange rate volatility is very small. This suggests that eliminating the volatility in the exchange rates will result in only small increments in the volume of trade. Accordingly, pursuing a policy of exchange rate stability would not be sufficient to significantly increase the volume of bilateral trade in the sub-Saharan African region.

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