

Abstract

The objective of the thesis is to examine the effect of nominal exchange rate uncertainty on India's exports both at the aggregate and at the firm level.

Chapter 2 examines the statistical properties and the stochastic distribution of the nominal (INR-USD) exchange rate. While many studies of the effects of exchange rate uncertainty use variance/standard deviation, it is well known that such a measure is appropriate only if the underlying distribution of exchange rate changes is normal. The analysis in this chapter indicates that the stochastic process followed by the INR-USD rate in India is non normal. Consequently we derive four alternative distribution independent measures of exchange rate uncertainty which are then used in our subsequent analysis of the effects of exchange rate uncertainty on India's exports.

Chapter 3 considers the effects of exchange rate uncertainty on Indian exports using the four measures of exchange rate uncertainty developed in chapter 2. The analysis is conducted at an aggregate times series level covering the period between 1971Q1 to 1998Q4, with both partial (single equation) and full information econometric methods applied. Our estimation results indicate that exchange rate uncertainty has a significantly negative effect on Indian exports.

Chapter 4 conducts a microeconomic examination of the effects of exchange rate uncertainty on Indian (corporate) firms' exporting behaviour in the post reform years (1994-95 to 1998-99). The results of the firm level, fixed effects, model estimated here corroborate the findings of the time series results reported in chapter 3, *viz.*, exchange rate uncertainty has a significant and depressing effect on exports.