

## Does Exchange Rates Volatility Matters? A Study on India's Exports to US: An Application of Bound Testing Approach

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*This paper examines both the long-run and short-run impact of real exchange rates and their volatility on India's exports to US by using Autoregressive Distributed Lag (ARDL) bound test on quarterly data spanning from 1991Q1-2018Q4. The results of sensitivity analysis conducted by using ARDL bound testing approach confirm that India's aggregate real exports are relatively more sensitive to the real exchange rates in the long-run but less responsive in the short-run. The empirical results failed to reject the null hypothesis of no short-run causality. The estimated coefficient of error correction term (ECT) is negatively and statistically significant at 5 per cent level of significance which indicates that the speed of adjustment towards long-run equilibrium is 24 per cent within a quarter in responses to the disequilibrium caused by previous period's short-run shocks of explanatory variables on real exports.*

### I Introduction

Due to unequal distribution and imperfect substitutability of some of the factors, no country can produce all its needs making international trade indispensable. Nations try to produce those goods in which they have comparative advantage and exchange the specialised products and services among themselves. Today almost all countries have opened their economies for trade and investment with the rest of the world. The global trade openness ratio rose from 38.53 per cent in 1991 to 59.36 per cent in 2018. India's percentage share of trade to GDP also has improved from 16.99 in 1991 to 43.40 per cent in 2018 (World Bank national accounts data). As per the Direction of Trade Statistics data, India has a very low contribution to world trade. Its share in world merchandise exports has registered a small growth from 0.51 per cent in 1991 to 1.67 per cent in 2018, and its share in global imports grew from 0.54 per cent in 1991 to 2.60 per cent in 2018.

Trade, one of the major components of Balance of Payments (BoP), is influenced by exchange rate fluctuations. Exchange rate, the rate at which one country's currency can be converted into another, plays a vital role in international

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