

ABSTRACT

This dissertation consists of three essays which examine the impact of exchange rate volatility on the major exportable commodities of Pakistan using annual data for the time period from 1982 to 2014. The commodities considered for analysis in this research work are rice, textiles and leather. These commodities have been selected on the basis of their contribution to the total exports of Pakistan. As regards the exchange rate volatility the same is measured by moving average standard deviation of the real exchange rates. Moreover, in this study the order of integration of the variables is checked using the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. The results of ADF and PP tests indicate that in all three essays one of the variable i.e. exchange rate volatility is stationary at level (i.e. integrated of order zero) while other variables are stationary at first difference (i.e. integrated of order one). Keeping in view the order of integration of the variables, the Autoregressive Distributed Lag (ARDL) model is applied in these essays for estimation because this model takes into account the variables integrated of different order. The ARDL bounds approach confirms the existence of long run relationship / co-integration among the variables under consideration in all three essays. Moreover, Panel ARDL / Pooled Mean Group models are also estimated in all three essays to assess the impact of exchange rate volatility on Pakistan's major exportable commodities to its five major trading partners.

The first essay of this research work empirically investigates the relationship between exchange rate volatility and the rice export of Pakistan to the world as well as to its five major trading partners over the period 1982-2014. From the Agriculture sector rice is the major export of Pakistan whose share in total exports is around 8%. In order to examine the impact of exchange rate volatility on the rice export from Pakistan this essay applied the ARDL methodology under time series framework and pooled mean group estimation under the panel framework. According to the results obtained from the ARDL model the impact of exchange rate volatility on rice export to the world is found to be positive and statistically significant both in the long run as well as in the short run. However, when it is examined in case of selected major trading partners the impact turns out to be negative. Another variable world GDP is also found to be positively affecting the rice export from Pakistan. Moreover, the

error correction term in the short run results is also found to be statistically significant with expected negative sign. In this essay all the diagnostic tests supported the results obtained from the ARDL model.

In the second essay of this dissertation the impact of exchange rate volatility is checked on the textiles exports from Pakistan to its largest trading partner the United States of America and to other five major trading partners using the annual data for the period from 1982 to 2014. The textiles industry is the largest export oriented industry in Pakistan. Its share in export earnings is more than 50%. Therefore in this essay the revealed comparative advantage (RCA) index of this industry is also calculated for Pakistan and its three major regional competitors namely Bangladesh, China and India. The value of RCA index is found to be highest for Pakistan. To check the nexus between exchange rate volatility and Pakistan's textiles exports to USA and to other major trading partners, the ARDL methodology is applied in this essay both in the time series framework and the panel framework. According to the long run results of the ARDL model all the explanatory variables i.e. USA's GDP, the real exchange rate and exchange rate volatility are found to have positive effect on the textiles exports of Pakistan to USA. When examined in case of other major trading partners the impact of exchange rate volatility is found to be sensitive to the selection of trading partners. However, overall impact turns out to be positive. Moreover, in the short run results of ARDL model the error correction term is found to be statistically significant with the negative sign which is an indication of convergence to long run equilibrium. The results obtained from the estimation of the Autoregressive Distributed Lag (ARDL) model passed all the diagnostic and parameter stability tests as well.

The third essay empirically examines the impact of exchange rate volatility on Pakistan's leather and leather manufacture exports to China and to five other major trading partners of Pakistan over the time period from 1982 to 2014. Leather & Leather manufactures rank third in their contribution to the export earnings of Pakistan. In this essay the effect of exchange rate volatility on Pakistan's leather goods exports to China is found to be negative and statistically significant. In case of other five major trading partners this impact varies with each trading partner. However, the impact is found to be negative overall under panel ARDL estimations. As regards the variable GDP the same is not found to be statistically significant in

case of China which conveys an idea of low income elasticity of demand for Pakistan's leather goods exports in China. With reference to other major trading partners the impact of importing countries GDP is found to be negative. In the short run results of this essay the error correction term is statistically significant with negative sign indicating convergence to long run equilibrium. Finally the estimated model also passed the majority of the diagnostic tests and parameter stability tests.