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Exchange rate volatility and trade: The role of credit constraints

Shu Lin, Kang Shi, Haichun Ye

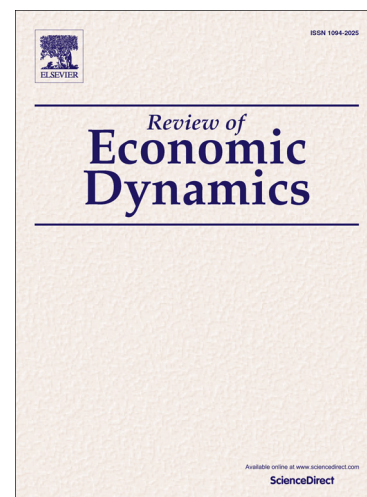
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Highlights

- The role of credit constraints play an important role in determining the trade effect of exchange rate volatility.
- A theoretical model is developed to show how constrained firms and unconstrained firms respond to the changes of exchange rate volatility.
- Financially more constrained sectors have a more negative exposure of their trade volumes to exchange rate volatility both theoretically and empirically.
- The estimated trade effects of exchange rate volatility vary substantially across sectors.

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