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Exchange Rate Variability and Its Effect on Trade: A Case Study of the CFA Franc Zone

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Oral Presentation 2.1

**EXCHANGE RATE VARIABILITY AND ITS EFFECT ON TRADE:
A CASE STUDY OF THE CFA FRANC ZONE**

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The volatility of a nation's exchange rate relative to its trading partners creates a risk for merchants. If we assume risk-averse merchants, volatility should decrease the volume of international trade. This paper addresses the effect of exchange rate variability over a period of 20 years on the imports of the CFA Franc Zone, a monetary union in West and Central Africa. Using the percent change in the Real Exchange Rate index as a measure of variability, a generalized difference equation shows that exchange rate variability does negatively effect the imports of the Franc Zone.