Multilateral Exchange Rate Changes and International Industry Effects

Chin-Wen Hsin
Department of Finance
Yuan Ze University

Abstract

This study examines the impact of multilateral exchange rate changes on international industrial competition in terms of stock performance. The empirical tests find that the exchange rate effect at industry level still plays an insignificant role in explaining the industry performance across boarders. Alternatively, the industry common effects, instead of industry competitive effects, prevail among developed markets and among Asian emerging markets while the results are less prevalent for the latter. More interestingly, the IT industries present the strongest exchange rate effects and common industry effects among Asian markets. On average, the multilateral exchange rate movements and the international industry common effects explain about 5% to 20% of industry performance either among the G7 countries or among those Asian markets. This variation may be caused by different industry characteristics, investor behavior or market institutional factors across nations. The U.S. industry performance and the U.S. currency shocks generally assert the strongest impact over corresponding industry performance in other countries.

JEL classification: E44, G15
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Department of Finance, Yuan Ze University, 135 Far East Road, Taiwan, Tel: +886-3-4638800 ext. 2662, Fax: +886-3- 4553098, e-mail: fncwhsin@saturn.yzu.edu.tw