

Chapter – 2

Review of Literature

In this section, the reviews of earlier studies presented in order to understand the methodology used and identify the gaps in the present study. The methods in data collection, methodology to be adopted, a process in data analyzing, a way of interpreting the analyzed data and appropriate concluding of results were reviewed from the literature.

Guglielmo Maria Caporale, Fabio Spagnolo, Nicola Spagnolo, (2016) in their research work analysed Macro news and Exchange Rate in BRICS. This paper examined the effects of newspaper headlines on the exchange rates vis-à-vis both the US dollar and the euro for the currencies of the BRICS (Brazil, Russia, India, China, and South Africa). The data are daily and cover the period 03/1/2000–12/5/2013. The estimated VAR-GARCH(1,1) model was allowed for both mean and volatility spillovers and for the possible impact of the recent financial crisis. The results differ across countries but provide in a number of cases evidence of significant spillovers, whose strength appears to have increased during the crisis. The increasingly global role of these countries, their FX markets have become more responsive to foreign news.

Robert D. Gay, Jr (2016) investigated Effect Of Macroeconomic Variables On Stock Market Returns For Four Emerging Economies: Brazil, Russia, India, And China. The relationship between share prices and macroeconomic variables is well documented for the United States and other major economies. The goal of this study is to investigate the time-series relationship between stock market index prices and the macroeconomic variables of the exchange rate and oil price for Brazil, Russia, India, and China (BRIC) using the Box-Jenkins ARIMA model. No significant relationship was found between respective exchange rate and oil price on the stock market index prices of either BRIC country, this may be due to the influence of other domestic and international macroeconomic factors on stock market returns, warranting further research. There was no significant relationship found between present and past stock market returns, suggesting the markets of Brazil, Russia, India, and China exhibit the weak-form of market efficiency.

Kadir karag (2016) examined Impact of Short-term Interest Rate on Exchange Rate: The Case of Turkey. the crises in 2001 inflation targeting regime have been adopted and short-term interest rates have been used as the main monetary policy tool in Turkey. Monthly data

was used for the period from 2003-2015. Central Bank of the Republic of Turkey (CBRT) utilizes short-term interest rates against the sudden rises in dollar rate. The aim of the study is to determine the efficient level of short-term interest rates on dollar rate. No evidence was found that higher interest rates cause to a weakening of exchange rate, by the frequency domain Granger causality test.

Amanjot Singh, Manjit Singh (2016) reviewed Inter-linkages and causal relationships between US and BRIC equity markets: An empirical investigation. The study period is from 2004-2014. The study employs Johansen cointegration, VAR, VECM, Toda-Yamamoto's Granger causality, generalized impulse responses, and variance decomposition models to account for the said linkages. For the full sample period analysis, Gregory-Hansen cointegration and Diebold and Yilmaz's (2011) spillover index approaches are also employed. The US and BRIC economies are sharing increasing trade as well as financial linkages since the last decade. In this regard, the present study attempts to capture long run and short run inter-linkages and causal relationships between the US and BRIC equity markets during different time frames, i.e., pre-crisis, crisis and post-crisis periods.

Emenike Kalu O, Peter Ifeanyichukwu Ali (2016) conducted Test for Autoregressive Conditional Heteroscedasticity in Naira/US Dollar Exchange Rate in Nigeria. The study includes monthly data sample covering January 2000 to December 2013. The objective of this paper is to analyse the behaviour of Naira/US\$ exchange rates in Nigeria. Specifically, the paper examines the descriptive statistics of Naira/US\$ exchange rates and whether the series follow autoregressive conditional heteroscedastic (ARCH). The estimates from descriptive statistics show that the official market exchange rate in Nigeria is negatively skewed with platykurtic distribution. The Jarque-Bera statistics support evidence of non-normality in the Naira/US\$ exchange rate series. The results of the augmented Dickey-Fuller (ADF) unit root tests suggest that the series contain unit root at level but are stationary at first difference. Estimates from the ARCH tests show that official market exchange rates in Nigeria are heteroscedastic. This implies that ARCH family models are appropriate for modeling volatility exchange rate in Nigeria.

Ravindran Ramasamy and Soroush Karimi Abar (2015) reviewed the Influence of Macroeconomic Variables on Exchange Rates. Exchange rates play a significant role in international trade not only in fixing the prices but also in determining the nature of hedging to be arranged to avoid exchange rate risks. In this article, three countries yearly exchange rates with their macroeconomic variables such as relative interest rates etc to study the

impact they exert on exchange rates. The bootstrapping technique to increase the sample size to run a regression to study the effect. Multi models was applied by linking complementary variables to identify the best model. Our results showed that model B was robust which indicated all macroeconomic variables significantly influenced the exchange rates except employment and budget deficit. Most of the macroeconomic variables showed opposite sign contrary to the expectations and we concluded that the psychological factors like investor confidence dominate over economic variables in deciding exchange rate fluctuation.

Dr. Namita Rajput, Dr. Sunil Gupta, Ms. Parul Chopra (2015) studied *Interlinkages And Underlying Relationships Between Brics Stock And Macroeconomic Variables: An Empirical Validation*. This paper studies the inter-linkages and causal relationship between stock markets of Brazil (IBOVESPA), Russia (MICEX), India (NIFTY), China (SSECOMPOSITE) and South Africa (FTSE/JSE TOP-40 Price Index). Internationalization of capital markets gives opportunities to investors to invest their money in the country of their choice, not just in their own country. Understanding the influence of one market on the other and role of each market segment in dominant role and impact of macroeconomic variables on stock market indices of BRICS is the central question in market microstructure design and it is very important to academia and regulators. This paper also reconnoiter the time- series relationship between share prices of BRICS and macroeconomic variables like international prices of gold, S&P500 index, and Crude oil. The period of analysis undertakes daily closing values of the BRIC indices and also the macroeconomic indicators from 1st January to 31 March 2014. This study has used the Jarque-Bera test and Augmented Dickey. This study has used the Jarque-Bera test and Augmented Dickey-Fuller unit root test (ADF) and Phillips–Perron (PP) test testing the normality and 2008 to 31st March 2014 stationarity of the data series. Based on the results which reveals that data is Non Normal and non stationery but integrated of order 1 [i.e., I(1)] Johansen cointegration tests are conducted which reveals the long-term dynamics is present in all indices, and pairwise Granger causality tests to investigate short and long-run interrelationships and integration of the BRICS stock markets Vis a Vis Nifty. The empirical results of which stock market have the ability of price discovery, VECM, Variance Decomposition Analysis was conducted. The results reveal that there is bidirectional causality between India and China, and India and Brazil stock market indices and unidirectional causality between Russia and India and South-Africa and Indian stock market indices. To make the study

more reliable the Vector Autoregression test is employed on return series of these Indices to understand in a nutshell as to which market is affecting which and also to test the direction of causality by employing Block Exogeneity Test. The VAR results reveals that Nifty is affected by its own lags and also by Russian and Chinese stock market. Brazil stock market is significantly affected by all other BRICS nations' indices. China is also significantly affected by Indian, Russian and South African stock market indices. The south African market is also influenced by its own and by Brazil and Russian indices. Russian indices are only impacted by its own lag and in the third lag, it is impacted by all other Brics nations except its own lags. Overall, this study has found that BRIC stock markets are having interrelated and causal relationships are the most favorable destination for global investors in the coming future. To investigate short and long-run interrelationships and integration of the BRICS stock markets Vis a Vis macroeconomic variables similar methodology were adopted A significant co-integrating relationship was revealed between Nifty and sample macroeconomic variables like Crude oil prices, Gold Prices, S&P 500 index prices. Whereas a significant relationship was found only with crude oil prices and S&P 500 index prices in case of Brazil. South Africa's indices revealed a non-co integrating relationship with all the three macroeconomic variables. China's index was co-integrated only with the international crude oil prices. A significant relationship was found between Russia's index and the international prices of S&P500 index and Crude oil. To understand the direction of causality, Granger Causality test reveals Bilateral and unilateral causal relationships were observed in majorly all the sample series except South Africa's indices and all the macroeconomic indicators, China's indices and international prices of gold and S&P500 index. Russia and Brazil's indices with international gold prices. The authorities need to monitor the developments in the world financial market like prices of gold, crude oil and S&P 500 as such as movements in major world markets affect stock market performance. The empirical results presented opportunities for portfolio diversification by acquiring stocks from these BRIC countries.

Elcyon Caiado Rocha Lima (2015) conducted The Interpretation Of Coefficients Of The Vector Autoregressive Model. This article proposes an alternative counterfactual experiment ("design of experiment") that, contrary to the one suggested by Johansen, does not imply a dichotomy of short run and long run values. The experiment interprets the coefficients of an identified cointegrating relation. It is based on the idea that the coefficients, and some operations with them, are projections at different horizons

conditional on paths of the variables of the model and on exogenous shocks in the error terms of the equations of a structural VAR. The model dynamics can be used to test if these values can be generated by in this paper support the view that international investors have long-run

exogenous shocks in these error terms. It is also feasible to construct, as was shown by Doan, Litterman and Sims (1984), a plausibility index for these exogenous shocks. The analysis of the proposed conditional projections can be as useful as checking coefficients, of the matrix with the contemporaneous correlations among variables, for the correct sign and significance in a structural VAR. It can be an important complement to the impulse response function analysis.

Farhana Akhter and Nushrat Faruqui (2015) probes the Effects of Macroeconomic Variables on Exchange Rates in Bangladesh. The paper discusses the experience of Bangladesh with different exchange rate regime, comparing the performance of previous and current exchange rate regime with selected South Asian countries and analyses and discusses how macroeconomic variables influenced the exchange rate. For these analyses, four major independent variables have been considered i.e. export amount, remittance, import amount and foreign currency reserve and the independent variable is the exchange rate. For evaluating the relationship and nature of the relationship the researchers used correlation and regression analysis. The results showed that macroeconomic variables significantly influenced the exchange rate. The study concluded that after adopting the floating exchange rate regime Bangladesh experienced positive impacts on macroeconomic development of the country but to manage efficiently free-floating exchange rate regime in developing countries like Bangladesh the central bank and the government may establish strict control over the foreign exchange business, to control the inflation rate, to increase export, reduce trade deficit and increase foreign currency earnings.

Kwabena Kwakye (2015) examined An Examination Of The Relationship Between Exchange Rate And Key Macroeconomic Variables In Ghana: An Autoregressive Distributed Lag (Ardl) Approach. The study examines the influence of key macroeconomic variables on the exchange rate of Ghana Cedi (GH¢) against the US Dollar (\$). The macroeconomic variables were money supply, interest rate, and inflation. Monthly data from May 2000 to May 2014 were used for the study. Using Autoregressive Distributed Lag (ARDL) approach to co-integration, the results show that there is a co-integrating

relationship between the variables, indicating a long-run equilibrium relationship among them. The study has established that the past exchange rate (lag of exchange rate) significantly affect the current exchange rate. The study has also found a causal relationship between broad money supply (M2+) and current exchange rate. The study recommends among other things that Government and policymakers must pay careful attention to macroeconomic fundamentals due to their significant short and long-term effect on the countries exchange rate stability. Also, the government must try to manage currency speculation since it has a significant impact on the exchange rate of the country.

Fayyaz Ahmad, Muhammad Umar Draz, Su-Chang Yang (2014) considers The existing literature on exchange rate fundamentals have either focused on the relationship between exchange rates and international trade or investigated the association between exchange rates and economic fundamentals for the developed countries. This study examines the impact of macroeconomic fundamentals on exchange rates of developing Asian countries. Two econometric approaches are applied to the pool and the panel data. For the pooled sample, EGLS and the two-stage Least Square Method are applied. For the panel data, we have used the panel GMM and the OLS methods. Both approaches suggest that macroeconomic factors have a significant impact on exchange rates. Several specifications and estimation techniques confirm that our findings are robust. Furthermore, we have found that improvements in domestic economic and political systems are necessary for a successful exchange rate policy. Our study is unique as it focuses on the developing Asian countries, covers a period of more than three decades, and uses both pool and panel estimations

David Isaias Maradiaga Pineda (2014) conducted Exchange Rate Volatility Effects on BRICS Countries Exports. The leaders of the leading emerging economies Brazil, Russia, India, China, and South Africa (BRICS) claim that increased currency exchange rate volatility (CERV) from USD, EUR, and JPY (G-3) negatively impacts their exports, and expressed their desire for less trade dependence on these currencies. The literature on the impact of CERV on trade is vast. However, no consensus on the impact's direction and significance has been reached yet. The motivation of this study was: first, to contribute to the existing empirical literature by using an alternative methodology; and second, to provide empirical evidence to the claim's validity or nullity by focusing on the case of BRICS, Turkey and Honduras. To this end, two general null hypotheses (objectives) were tested: 1) Unconditional (constant) CERV does not Granger cause exports, and 2) Conditional

(stochastic) CERV does not impact exports. To achieve the first objective, an export demand model was specified as a VAR dynamic system of exports, World GDP, relative prices, and own or third CERV. Quarterly time-series from 1973 to 2013 were used. Using a battery of unit root tests, including the latest developments, different orders of integration were identified. Therefore, to test this hypothesis it was opted for the Toda Yamamoto, and Dolado and Lütkepohl procedure. It consists in estimating an augmented VAR and test for Granger non-causality using MWald tests. In total 84 models were estimated. To accomplish the second objective, Bivariate VAR-GARCH(1,1)-M models of exports and exchange rates were estimated and the significance of the volatility coefficient was tested via t-tests. Data were log first-differenced as monthly exports and exchange rates were $I(1)$ for the 1973 to 2013 period. In total, 42 estimations were performed. The major results provide empirical evidence that support the claim for some countries. Model results indicate that Brazilian agricultural and total exports have been significantly and negatively impacted by own and third country currency volatility, while Chinese and Honduran exports have been positively or not significantly affected. In the case of Turkey no significant effects were found. And the remaining countries Russia, India, and South Africa presented mixed results.

Markku Lanne and Henri Nyberg (2014) reviewed Generalized Forecast Error Variance Decomposition for Linear and Nonlinear Multivariate Models. A new generalized forecast with the property that the proportions of the impact accounted for by innovations in each variable sum to unity. Our decomposition is based on the well-established concept of the generalized impulse response function. The use of the new decomposition is illustrated with an empirical application to U.S. output growth and interest rate spread data

Dalina Maria Andreia, Liviu C. Andreib (2014) delve into Vector error correction model in explaining the association of some macroeconomic variables in Romania. The purpose of this article is to empirically analyze the long and short runs association of some macroeconomic variables in Romania. Variables used across regression include foreign direct investments (FDI), imports, exports, GDP and labour and we also take into account some economic and financial crisis' influence on these. In order to establish this influence, a dummy was used for the 2008-2012 interval. Then, all variables were found to be integrated of order one $I(1)$. Cointegration was performed under Johansen test and a VECM was applied according to its result. Our model results point on the association between

variables on both long and short runs. Then, Granger test under VECM was equally applied in order to establish the uni- or bi-directional causality between variables. We found that the economic crisis actually caused significant influence on FDI, imports, exports and GDP and rather no influence on labor, as reliable resource.

Mr Ncube Prince Zwelibanzi (2013) taken The Impact of BRICS alliance on South Africa's economy - a VECM approach. This paper examines first the impact of the BRICS alliance on South Africa's economy and secondly the impact that trade openness in the alliance has on South Africa's economy. The study uses series data from 1980 to 2012 and employs up to date econometric methodologies- unit root and vector error correction model estimates to achieve its aims. The empirical result reveals that international trade has contributed a lot to the high economic growth rates experienced by the BRICS economies during the recent decades. However, it is also found that international trade is not the only contributing factor. Human Capital formation, Gross domestic capital formation and real effective exchange rate appreciation are equally important contributors. Results of the study however reveal that South Africa's trade openness in the alliance has detrimental long run effects for the economy. The study also reveals that despite the growth experienced overall in the alliance, South Africa's economic participation is limited due to unfair trade practices amongst the members of the alliance. The findings provide an insight of the policies to be adopted to achieve higher growth rates in South Africa within BRICS alliance

Esref Savas (2013) investigated The Determinants of Stock Market Index: VAR Approach to Turkish Stock Market. The sample period of the study includes 190 observations from January, 1996 to October, 2011. VAR model was used for the study. Variables used in the model are Exchange, Gold, Import, Export and ISE 100 Index. ISE 100 Index is a dependent variable and the others are independent variables. the relationship between ISE 100 Index and a set of four macroeconomic variables using Vector Autoregressive (VAR) model was examined. All variables have seasonal movements. After seasonal adjustments, all series have had stationary in their first difference. After determining optimal lag order, it was given one standard deviation shock for each series and their response. And in variance decomposition carried out subsequently, it has been determined that especially as of the second default of exchange, it was explained 31% by share indices.

Anita Mirchandani (2013) probes Analysis of Macroeconomic Determinants of Exchange Rate Volatility in India. The Foreign Exchange Market in India has undergone substantial changes over last decade. It is imperative by the excessive volatility of Indian Rupee causing its depreciation against major dominating currencies in international market. This research has been carried out in order to investigate various macroeconomic variables leading to acute variations in the exchange rate of a currency. An attempt has been made to review the probable reasons for the depreciation of the Rupee and analyse different macroeconomic determinants that have impact on the volatility of exchange rate and their extent of correlation with the same.

Saqib and Rafique (2013) analysed Impact of foreign direct investment on economic growth of Pakistan. The data used for this study has spanned over the period of 1981 till 2010. The tools used in the study is Augmented Dickey Fuller Test. It resulted Pakistan's economic performance is negatively affected by foreign investment while its domestic investment has benefitted its economy. Moreover, the nation's debt, trade and inflation have found to have negative impact on its GDP.

Irina Gabriela Radulescu, Mirela Panaita, Catalin Voicab (2013) explored BRICS countries challenge to the world economy new trends. This paper analyzes the importance of the BRICS group as representatives of emerging countries in the global economy. It is worth noting that the financial crisis had no strong effect on the BRICS group and it had a much better economic performance than developed countries. The main factors that led to the economic expansion of the group were an increased input of factors, and enormous scales of population and resources. For example, Brazil and Russia are mainly based on huge reserves of mineral resources and speculations made in international markets. China has an advantage of cheap labor and resources at low prices. India is also based on low-cost workforce. And last but not least, all the BRICS countries, except Brazil, show very high rates of investment. The current concern is to estimate whether the BRICS countries will have the same upward trend given the weakness identified within them: the high level of corruption, political different ideologies, over exposure to commodities etc.

Emmanuel E. Asmah (2013) investigated Sources of Real Exchange Rate Fluctuations in Ghana. This study employs the VAR methodology based on quarterly data for Ghana from 1986 to 2011 to analyse the relative importance of different types of shocks for fluctuations in the real effective exchange rate. The study has been able to establish Granger-causal

relationships between real effective exchange rate and its fundamentals. Both supply and nominal shocks are important in cushioning the real exchange rates against its appreciation in order to minimize the conventional Dutch Disease effects. Compared to productivity shocks, the results show that consumer price increases contribute significantly to real effective exchange rate appreciations. Policy should therefore be aimed at using additional inflows (such as additional oil revenues from new discovery) in Ghana to boost domestic production of tradable which would maintain higher export volumes. Additional resources should particularly be spent on a variety of investment goods such as machinery, spare parts and raw materials. The implementation of export friendly policies by government should also prove effective in moderating inflationary pressures induced by the additional inflows in Ghana.

Naz (2012) investigated A Univariate Time Series Modelling of Dates Exports in Pakistan. The period of the study was from 1962-2008. The tools used are Autoregressive integrated Moving Average Models (ARIMA). It resulted date exports of Pakistan provided better results in upward trend for future. Besides this, model selection criteria includes e.g. AIC, SIC, BIC, MAPE and RMSE were used.

Srinivasan and Kalaivani (2012) made an attempt to Exchange Rate Volatility and Export Growth in India. The period of study was from 1970-2011. The tools used in the study are ARDL-UECM, Cointegration, CUSUM, CUSUMQ. It resulted real exports are cointegrated with exchange rate volatility, real exchange rate, gross domestic product and foreign economic activity, the exchange rate volatility had significant negative impact on real exports both in the short-run and long-run, implying that higher exchange rate fluctuation tends to reduce real exports in India, the real exchange rate has negative short-run and positive long-run effects on real exports. GDP had a positive and significant impact on India's real exports in the long-run, but the impact turns out to be insignificant in the short-run. The foreign economic activity exerts significant negative and positive impact on real exports in the short-run and long-run.

Chi-Wei Su (2012) probes The relationship between exchange rate and macroeconomic variables in China. The objective of this study is to provide evidences on the relationship between Renminbi (RMB) exchange rate and macroeconomic variables in China, as well as guidelines for reform of RMB exchange rate regime. The long-run equilibrium relationship between RMB exchange rate and macroeconomic variables of China is examined by

applying the non-parametric rank tests proposed by Breitung. Furthermore, this study uses the threshold error-correction model (TECM) to detect the nonlinear casual relationship between RMB exchange rate and macroeconomic variables that are nonlinear forms. The results show that RMB exchange rate and macroeconomic variables have nonlinear relationship with each other. In the long run, these results demonstrate solid evidence that RMB exchange rate and macroeconomic variables support the hypothesis of an asymmetrical error-correction process in China. Our results have important policy implications for Chinese government under study.

otavio et.al (2011) in his research work analysed Modelling and forecasting firm's financial statements with a VAR- VECM model. The methodology comprises correlation analysis, unit root tests, cointegration analysis, VAR modeling, Granger causality tests, in addition to impulse response and variance decomposition methods. Besides the endogenous financial statement variables, an exogenous variable vector was utilized including the Brazilian GDP, domestic and foreign interest rates, the international oil price, the exchange rate, and country risk. The model's final version is a Vector Error Correction Model (VECM), which takes into account the cointegrating relationships among the endogenous variables. After estimation and validation, the model is used to forecast the firm's financial statements. Estimates for the exogenous variables and dividend forecasts were also used to estimate the firm's market value. The results are apparently robust and might contribute to the field of financial planning and forecasting.

Selcuk Bayraci, Yakup Ari, Yavuz Yildirim (2011) reviews A Vector Auto-Regressive (Var) Model For The Turkish Financial Markets. In this paper, vector autoregressive (VAR) model of the Turkish financial markets for the period of June 15 2006 – June 15 2010 and forecasts ISE100 index, TRY/USD exchange rate, and short-term interest rates. The out-ofsample forecast performance of the VAR model is compared with the results from the univariate models. Moreover, the dynamics of the financial markets are analyzed through Granger causality and impulse response analysis.

Bajwa and Siddiqi (2011) investigated Trade Openness and Its Effects on Economic Growth in Selected South Asian Countries: A Panel Data Study. The period of the study was from 1972-1985 and 1986-2007. The tools used in the study are co-integration tests. It resulted that there exists long run negative relationship. In time period 1986-2007 the elasticity magnitude had positive sign that indicated positive causation between GDP and openness. It was concluded that after the implementation of SAARC overall situation of

selected countries were better. Also long run coefficient of error term suggests that short term equilibrium adjustments are driven by adjustment back to long run equilibrium.

Zaman and Ahmad (2011) taken Panel data analysis of growth, inequality and poverty: evidence from SAARC countries. The period of study was from 1988-2009. The tools used are fixed effect models. It resulted pooled least square method reveal that if there is one percent increase in economic growth reduces poverty by 0.05 percent. While one percent rise in income inequality decreases poverty by almost 0.78 percent. This phenomenon can be linked with the recent wave of privatizations in the developing countries. Public spending on education and foreign direct investment has shown a positive impact on poverty reduction process. Trade openness and increase in healthcare expenditure had found to be insignificant on poverty reduction.

Adriatik HOXHA (2010) studied Causality between Prices and Wages: VECM Analysis for EU-12(*) The literature on causality as well as the empirical evidence clearly shows that there are two opposing groups of economists, who support different hypotheses with respect to the flow of causality in the price-wage causal relationship. The first group argues that causality runs from wages to price, whereas the second argue that effect flows from prices to wages. Nonetheless, there is at least some consensus that researchers conclusions may be contingent on the type of data employed, applied econometric model, or even that the relationship may vary through economic cycles. This paper empirically examines the pricewage causal relationship in EMU, by using OLS and VECM analysis, and also it provides robust evidence in support of a bilateral causal relationship between prices and wages, both in long-run as well as in the short-run. Prior to designing and estimating the econometric model we have performed stationarity tests for the employed price, wage and productivity variables. Additionally, we have also specified the model taking into account the lag order as well as the rank of co-integration for the co-integrated variables. Furthermore, we have also applied respective restrictions on the parameters of the estimated VECM and finally model robustness checks indicate that results are statistically robust. Although far from closing the issue of causality between prices and variables, this paper at least provides some fresh evidence for the case of EMU.

George et.al (2010) conducted Model selection, estimation and forecasting in VAR models with short-run and long-run restrictions. The joint determination of the lag length, the dimension of the cointegrating space and the rank of the matrix of short-run parameters of a

vector autoregressive (VAR) model using model selection criteria. Selection criteria includes data-dependent penalties as well as the traditional ones. A new two-step model selection procedure which is a hybrid of traditional criteria and criteria with data-dependent penalties and its consistency was proved. Monte Carlo simulations measures the improvements in forecasting accuracy that can arise from the joint determination of lag-length and rank using our proposed procedure, relative to an unrestricted VAR or a cointegrated VAR estimated by the commonly used procedure of selecting the lag-length only and then testing for cointegration. Two empirical applications forecasting Brazilian inflation and U.S. macroeconomic aggregates growth rates respectively show the usefulness of the model-selection strategy was proposed. The gains in different measures of forecasting accuracy are substantial, especially for short horizons.

Stephen Gibbons, Henry G. Overman, Panu Pelkonen (2010) studied The decomposition of variance into individual and group components with an application to area disparities. This paper considers methods for decomposing variation in wages into individual and group specific components. We discuss the relative merits of these methods, which are applicable to variance decomposition problems generally. We show how the relative magnitudes of the measures depend on the underlying variances and covariances, discuss how the measures should be interpreted and consider how they might relate to structural parameters of interest. We highlight that a clear-cut division of variation into components is strictly speaking impossible. The different decompositions are then applied to British labour market areas. The findings show that independent of the choice of decomposition, area effects contribute a very small percentage to the overall variation of wages in Britain.

Narayanamurthy Vijayakumar, Perumal Sridharan, Kode Chandra Sekhara Rao (2010) investigated Determinants of FDI in BRICS Countries: A panel analysis This study examines the factors determining FDI inflows of BRICS countries using annual dataset from the period 1975 to 2007 (for Russia required data set is available from 1990 onwards). The study employs Panel data analysis and finds that the selected variables Market size, Labour cost, Infrastructure, Currency value and Gross Capital formation as the potential determinants of FDI inflows of BRICS countries. The Economic Stability and Growth prospects (measured by inflation rate and Industrial production respectively), Trade openness (measured by the ratio of total trade to GDP) are seems to be the insignificant determinant of FDI inflows of the BRICS countries. The empirical results are robust in general for alternative variables determining FDI flows.

Aghion, Bacchetta and Ranciere (2009) analysed Exchange Rate Volatility and Productivity Growth: The Role of Financial Development. The period of study was based on 83 country data between 1960-2000. The tools used in the study are Robustness tests and monetary growth model. It resulted that in striking contrast to the vast existing empirical exchange rate literature, which largely found the effects of exchange rate volatility on real activity to be relatively small and insignificant.

Ali and Talukder (2009) probes Preferential Trade among the SAARC Countries: Prospects and Challenges of Regional Integration in South Asia. It analysed regional and international trade structures of South Asian countries through conventional trade measures such as commodity composition and direction of trade, and bilateral trade shares. It resulted preferential trade liberalisation brought trade diversion than trade creation leading to more gains for large countries and more losses for small countries. Trade policies of individual countries shaped political considerations than economic factors.

Liargovas et al. (2008) taken various internal factors (i.e. quality, price, marketing infrastructure, labour cost and availability of raw material), external factors (i.e. size of market, market growth, market share of competitors, expected profit margin, economic environment and legal framework) and strategic factors explaining the motivation and marketing strategy of exporting firms. Generally, the exports are affected by external factors as well as by internal factors. The export performance depends upon the ability to develop and implement unique differentiated marketing strategies as regards product, price, promotion and distribution with elements of the general export strategy such as market research and training.

Rahman (2008) investigated The foreign trade of Bangladesh: its composition, performance, trend, and policy. The period of the study was from 1991-2003. It resulted the trade balance with the SAARC countries, especially with India, further currency devaluation, measures to stop border smuggling, removal of tariff and non-tariff barriers on Bangladesh's exports, arrangement for more Indian investment in Bangladesh and political harmony in the region are vital. A customs union within the SAARC region is likely to offset many of the existing trade related problems.

Sultan (2008) explored Trade, industry and economic growth in Bangladesh. The period of study was from 1971-2003. The tools used in the study are Descriptive statistics, Correlation

matrix, unit test root results, Regression tests, Johansen Bivariate and Multivariate Cointegration tests, Granger causality tests. It resulted there is no significant relationship between the Growth rate of export and the growth rate of gross domestic product of Bangladesh. There is no causal relationship between export growth and industrial growth. Growth rate of export is Granger caused by the growth rate of industry added but not vice versa.

Banik (2007) made an attempt to NTBs have recently become more dominant than tariffs in restricting market access. The Multilateral Trade Negotiations (MTNs) under WTO have led to a steady fall in industrial tariffs. Due to WTO commitments, it is not easy for a country to increase tariffs without substantive negotiations with, and compensation to, affected parties, and many countries are therefore now using NTBs to protect their economy. NTBs (e.g. antidumping procedures, countervailing procedures, sanitary and phyto-sanitary sanctions, import licensing, rules of origin, tariff quota and government procurement) affect adversely the country's exports. The study also pointed out that improvement in labour productivity (in raw material and finished goods) is the main reason of export growth whereas government regulations, rules and procedures etc. raise the cost of production and affects the exports adversely. The study also found out that the lack of infrastructure facilities indirectly raises the costs of Indian exports.

Nag and Chatterjee (2007) conducted Changing features of the automobile industry in Asia: comparison of production, trade and market structure in selected countries. The period of the study was from 1995-2005. It resulted the success of automobile sector in each of these countries significantly depends on this, and governments need to create proper investment environment, incentives for R&D and strong patent regime.

Pradhan (2007) examined Growth of Indian multinationals in the world economy: implications for development. It resulted the outward investment activities of Indian multinationals had grown rather sharply since 1990s (UNCTAD, 2004, 2005, 2006; Pradhan, 2005; Sauvart, 2005). Between 1991 and 2003 the number of outward investing Indian companies has grown at a rate of 809 per cent from 187 to 1700. This growth rate is higher than the rate at which numbers of domestic firms investing abroad have grown in countries like China (805 per cent), Republic of Korea (611 per cent), Brazil (116 per cent) and Hong Kong (90 per cent) over approximately comparable periods.

Paul Turner (2007) in his discussion paper analysed Testing for cointegration using the Johansen Approach. This paper presents Monte Carlo simulations for the Johansen cointegration test which indicate that the critical values applied in a number of econometrics software packages are inappropriate. This is due to a confusion in the specification of the deterministic terms included in the VECM between the cases considered by Osterwald-Lenum (1992) and Pesaran, Shin and Smith (2000). The result is a tendency to reject the null of no cointegration too often. However, a simple adjustment of the critical values is enough to deal with the problem.

Tenreyro (2007) probes On the trade impact of nominal exchange rate volatility. The period of study was from 1970-1997. It resulted the probability that a client anchors its currency to one of the main anchors increases when the client is closer to the anchor, and when they share a common colonial past. The propensity to anchor the currency increases with the size of the anchor, among the five considered, where size is measured by GDP per capita and geographical area. The population of the anchor does not seem relevant, although it is likely that this insignificance is due to the high correlation between population and geographical area. Finally, the larger the difference in size (as gauged by per capita GDP and population) between anchor and client, the larger the propensity to anchor the currency. In other words, relative size seems to matter (although the difference in areas is virtually irrelevant).

Wilson and Otsuki (2007) studied Regional integration in South Asia: What role for trade facilitation?. The period of study was from 1980-2000. It resulted there are significant potential gains to trade for South Asia associated with collective efforts to raise capacity in trade facilitation. The steps to reduce barriers to trade logistics in the region promise expanded trade opportunities with the rest of the world.

Eichengreen(2007) examined The real exchange rate and economic growth. The tools used in the analysis were closed-economy model. It resulted that a stable and competitive real exchange rate. The undervalued exchange rate had cost benefits and the cost benefit ratio raised general level of economic and financial development.

Rahman and Shadat (2006) studied Trade potential in SAFTA: An application of augmented gravity model. The tools used in the study are Gravity Model. It resulted significant intra-bloc export creation in SAPTA; at the same time there is evidence of net export diversion in the SAPTA. Bangladesh, India and Pakistan are expected to gain from

joining the RTA, while Nepal, Maldives and Sri Lanka are likely to be negatively affected. AFTA, NAFTA, SADC, MERCOSUR, CAN, EAC are associated with intra-bloc export creation and net export diversion. EU and Bangkok agreement (APTA) are found to be intra-bloc export diverting and net export diverting. BIMSTEC is found to be intra-bloc export diverting but there is no evidence of net export creation or diversion. Although none of the RTAs covered by the study was found to be net export creating, more than one third of the members of these RTAs are found to be positively affected by joining the RTAs Trade.

Tharakan and Beveren (2005) explored Determinants of India's software exports and goods exports. The period of study was from 1997-2001. The tools used in the study are Gravity models. It resulted Export-oriented service sectors had become highly important in some emerging economies like India. Our results suggest that from a gravitational point of view, such sectors, especially when they have relatively high technology content as in the case of software, might have the possibility to power export growth more strongly than export-oriented sectors product. This raises some intriguing possibilities.

Abraham and Van Hove (2005) taken The Rise of China: Prospects of Regional Trade Policy. The period of the study was conducted between 1992 and 2000. The tools used in the study are Gravity Model. It resulted in there was an effect on ASEAN and APEC had smaller effects on Asia-Pacific exports, which are mainly influenced by growth, trade barriers and common language. China's participation in regional agreements had large export potentials, not only with respect to ASEAN, but also in a broad agreement including South- and East-Asian countries.

Nag (2005) investigated Trade cooperation and performance in East and South Asia: towards a future integration. The period of the study was from 1997-2001. It resulted short- and medium-term efficiency gains from these efforts were unclear. However, this lays the foundation for the eventual integration of all countries in the region. For this reason, the consolidation of agreements is necessary. To achieve further economic integration in Asia, bigger countries and stronger economies need to take the lead (ESCAP, 2004a). A successful Asian integration would pave the way for further benefits once this reduces the MFN tariff rates. Many least developed countries in the region are not WTO members. It is the responsibility of all these blocs to create a level playing field by ensuring effective and meaningful participation of these countries with less possibility of backsliding. The

implementation of the Doha Agenda in this context is absolutely necessary to develop the capacities of weaker countries so that they can participate in the negotiation process effectively. A two-track approach, helping ASEAN+3 to ahead and in stages gradually link with SAARC, possibly through a sector-by sector approach, would benefit the countries of the Asian region from the vibrant trade relationship among themselves.

Saxena (2005) examined Can South Asia adopt a common currency?.It resulted the evidence is mixed as one would expect since no formal coordination process had taken place, there can be substantial gains from monetary union in the form of higher formal trade and peace and stability. The analysis in the paper doesn't suggest that all the seven countries are ready to adopt a common currency. The existence of some positive aspects (like positive shocks across major economies) and the prospects of increasing trade, which would be very beneficial for the region, as access to the world markets may get limited in the future.While intra-regional trade is small for most countries, except Bhutan, Nepal and Maldives, it has increased for Bangladesh and Sri Lanka in the last decade and trade is likely to increase further once countries move to free trade agreements (as preferential and free trade agreements have already been in place between India and Sri Lanka and India and Bangladesh).The elimination of exchange rate risks and volatility would decrease transaction costs and uncertainty, which is likely to increase trade among these countries.

Gali and Monacelli (2005) investigated Monetary policy and exchange rate volatility in a small open economy. The tools used in yhe analysis were Calvo Sticky Price model.It resulted in the macroeconomic implications of three alternative rules based policy regimes for the small open economy:domestic inflation and CPI-based Taylor rules,and an exchange rate peg .The difference among these regime lies in the relative amount of Exchange rate votality.The domestic inflation targets the optimal policy and a simple second order approximation to the utility of the representative consumer is derived and it evaluates the welfare losses associated with the suboptimal rules.

Xiaoying Li Xiaming Liu (2005) probes Foreign Direct Investment and Economic Growth: An Increasingly Endogenous Relationship. This paper investigates whether foreign direct investment (FDI) affects economic growth based on a panel of data for 84 countries over the period 1970–99. Both single equation and simultaneous equation system techniques are applied to examine this relationship. A significant endogenous relationship between FDI and economic growth is identified from the mid-1980s onwards. FDI not only directly promotes economic growth by itself but also indirectly does so via its interaction terms. The

interaction of FDI with human capital exerts a strong positive effect on economic growth in developing countries, while that of FDI with the technology gap has a significant negative impact.

Levy-Yeyati and Sturzenegger (2005) studied Classifying exchange rate regimes: Deeds vs. words. The period of the study was from 1990-1998. It resulted in an exchange rate regime classification entirely based on facts rather than on legal characteristics of the regime. It highlights the importance of distinguishing between low and high variability countries to better analyze the link between regimes and other macroeconomic variables. Future work will explore the possibility of using a similar approach to build from the data a quantitative indicator of the relative fixedness of exchange rate regimes.

Broda (2004) probes the panel data of 75 developing countries covering periods between 1973–1996 using the VAR model. He finds that there exists a substantial impact of real shocks, such as shocks to terms of trade of a country, on real GDP in the short term. He also suggests that negative shocks lead to larger real exchange rate changes in countries with flexible exchange rate regimes.

Sexana (2004) considers to identify whether the South Asian countries satisfy the criteria to form a monetary union and to enjoy the benefits of single currency. This study discovered that not only the economic criteria but also the geo-political factors are the important determinants in the decision to move to a single currency. It argued that the benefit of monetary union and common currency would help to develop the economic integration in the form of higher formal trade, peace, and stability within the South Asian countries. The literature emphasized trade as the main channel through which benefits from a common currency would be enjoyed, because they are likely to benefit from low transaction costs and elimination of exchange rate risks. This study also mentioned that labor mobility had been emphasized in the optimum currency area literature as it helps the members of a monetary union to adjust to asymmetric shocks by allowing labor to move from high unemployment areas to low unemployment areas.

Akbostanci (2004) examined the short-run and long-run behaviors of the trade balance and real exchange rate in a dynamic model using Turkish data. She suggests that, in the long run, a real depreciation of the Turkish lira improves the Turkish trade balance. Her findings are consistent with the long-run result of earlier study on Turkey by Brada et al. (1997)

Amjad and Khan (2004) constructed External Determinants of Growth and Growth Projections: SAARC and Pakistan. It focuses on the prospects of extended economic cooperation of Pakistan with the member countries of the South Asian Association for Regional Cooperation (SAARC). Part I reviews the theoretical rationale of regional economic cooperation and the recent developments shaping the trading relations within the cooperating blocs. Part II evaluates the relative size and significance of the external sector of the SAARC region countries, along with presenting statistical estimates of the major external determinants of the region's economic growth., Part III estimates the relationship of major directions of Pakistan's exports with the economic growth of the country and presents the growth projections by increasing and diverting the exports to the SAARC and ASEAN region countries.

Chowdhury (2004) taken Convergence of per capita GDP across SAARC countries. The time period of the study was from 1960-2000. The tools used in the study are endogenous growth models. It resulted in evidence of σ convergence, β convergence and conditional β (bc) convergence in South Asia.

Hiranthi (2004) investigated From SAPTA to SAFTA: Gravity analysis of South Asian free trade. The time period of the study was from 1996-2002. Both npanel data and cross sectional data analysis had been used. The tools used in the analysis are Gravity Models. It resulted in significant trade creation effect under SAPTA and found no evidence of trade diversion effect, it supported the proposition of regional integration that brought substantial benefits to SAARC region and South Asian Free Trade area promoted intra-regional trade through further dismantling of tariff and other non-tariff barriers to trade among members .

Mustafa and Kemal (2004) delve into Volatility of Exchange Rate and Export Growth in Pakistan: The Structure and Interdependence in Regional Markets. The period of study was from 1991-2004. The tools used are Econometric models. It resulted Impact of exchange rate volatility on exports growth between Pakistan and leading trade partners had been investigated. The countries are selected under various regional economic blocks such as SAARC, ASEAN, European, and Asia-Pacific regions. Cointegration and error-correction techniques are used to establish the empirical relationship between exchange rate volatility and exports growth, using quarterly data from 1991:3 to 2004:2. The results indicate that the volatility of exchange rate has negative and significant effects both in the long run and short run with Australia, New Zealand, UK, and US, where the volume of trade with Pakistan is

comparatively consistent and less volatile. The relationship between exports growth and exchange rate volatility for Australia, Singapore and UK is observed only in long run perspective. Countries like Bangladesh and Malaysia had no empirical relationship between export growth and exchange rate volatility.

Das (2004) analysed Industrial Restructuring and Export Competitiveness of the Textiles and Clothing Sector in SAARC in the Context of MFA Phase-out. It observes a situation characterized as factor intensity reversal in South Asian countries necessitated by structural transformation within the industry due to increasing use of their scarce factor. It explored the prospects for horizontal specialization and industrial restructuring with the help of strengthening trade-investment linkages in this sector in the SAARC region along with adopting some other policy measures.

Devereux and Lane (2003) examined Understanding bilateral exchange rate volatility. The data are collected from various developing countries for determining the exchange rate. The tools used in the analysis are f-tests and Regression models. It resulted bilateral exchange rate volatility was strongly negatively affected by the stock of external debt. OCA (optimal currency area) variables appeared most important and external debt is not significant to explain bilateral exchange rate volatility.

Cesar Calderon (2003) taken The direction of causality between financial development and economic growth. This paper employs the Geweke decomposition test on pooled data of 109 developing and industrial countries from 1960 to 1994 to examine the direction of causality between financial development and economic growth. The paper finds that (1) financial development generally leads to economic growth; (2) the Granger causality from financial development to economic growth and the Granger causality from economic growth to financial development coexist; (3) financial deepening contributes more to the causal relationships in the developing countries than in the industrial countries; (4) the longer the sampling interval, the larger the effect of financial development on economic growth; (5) financial deepening propels economic growth through both a more rapid capital accumulation and productivity growth, with the latter channel being the strongest.

Hassan and Mehanna (2003) considers Regional cooperation in trade, finance and investment among SAARC countries. The time period of the study was from 1994-95 to 1997-98. The tools used is Gravity model. It resulted liberalization of trade in SAARC countries offers significant gains for all the economies in the region. Efforts are made to

liberalise border trade and strengthen bilateral Trade relations through separate sets of trade concessions in the general framework of SAPTA.

Hau (2002) constructed Real exchange rate volatility and economic openness: theory and evidence. The period of the study was 1999. The tools used in the study is monetary model. It resulted the inverse relationship between the import share of an economy and the volatility of the real exchange rate. Empirical evidence on a cross section of 54 countries confirms the relationship. Difference in trade openness explained the large part of the cross country variation in the volatility of effective real exchange rate .

Baak, Mahmood, and Vixathep (2002) investigated the impact of exchange rate volatility on exports in four East Asian countries (Hong Kong, South Korea, Singapore, and Thailand). Their results indicated that exchange rate volatility has negative impacts on exports in both the short run and long run periods.

Rajesh (2002) taken the implementation of common currency in the European Union, created the opportunity of the era of boundless prosperity. He also stated that South Asia could be benefited by implementing the common currency. If common currency is implemented by South Asian countries the transaction costs of one currency to another can be eliminated, which will reduce the costs of production and distribution. He also mentioned that if conversion costs can eliminate and South Asian countries permits free trade, the informal trade could be translated to formal trade, in turn government would be able to earn valuable revenue. In this study he found some impediment towards a common currency. He mentioned that considerations of sovereignty had traditionally weighted heavily on South Asian countries, this is why the collective decision making in SAARC network is very slow. The major drawback in the implementation of common currency is the economic condition of the countries. South Asian countries are plagued with weak economic fundamentals as well as different level of economic development. To overcome these situations he suggested establishing South Asian Central Bank which will formulate an appropriate common monetary policy.

Verma (2002) studied the context of emerging global market place, prices are now falling in priority of list of criterion considered important by major retailers in the export market. But timely delivery and quality considered important with higher of score 9.2 and 9.0 grades (on a 10 point scale) compared to price which was ranked third with a score of 8.8. Hence, price would not be the sufficient factor in getting export orders. The study also

pointed out that cost of transportation is one area where India stands unfavourable in comparison with its competitors. The shipping freight from India to the USA is costlier in India than in other Asian countries. Despite a longer route, shipping to the US eastern seaboard out of Bangkok is almost 18percent cheaper compared to Mumbai or Chennai. If this is weighted for trade volumes, the overall cost advantage in shipping from Bangkok to the US is almost 23percent. China enjoys a 13percent cost advantage in shipping from Shanghai to the US East Coast, and a staggering overall advantage of 37percent. The huge disadvantage of India is due to delays and inefficiencies in Indian ports compared to other Asian countries.

Andersen and Bollerslev (2001) analysed The Distribution of Exchange Rate Volatility. The period of study was conducted from 1989-1999. It includes model-free estimates of daily exchange rate volatility and correlation. The tools used are parametric volatility models. It resulted in a simple normality-inducing volatility transformation, high contemporaneous correlation across volatilities, high correlation between correlation and volatilities, and highly persistent temporal variation in both volatilities and correlation, clear evidence of long-memory dynamics in both volatilities and correlation, and precise scaling laws under temporal aggregation.

Aristotelous (2001) investigated Exchange-rate volatility, exchange-rate regime, and trade volume: evidence from the UK–US export function. The period of study was conducted from 1889-1999. The tools used in the study are Gravity models. It resulted that neither exchange-rate volatility nor the different exchange-rate regimes that spanned the last century had an effect on export volume.

Mundell and Zaman (2001) conducted Debt, Growth, and Poverty in the International Monetary System. The period of the study was from 19th century. It resulted the conditions for a successful currency area as a consensus on a common inflation rate; a common basket of goods to measure inflation; exchange rate that must be locked; member countries must adopt a common monetary policy; and a formula must be devised for distributing and using the seigniorage profits from monetary expansion. There is a need to study the possibility of an Asian currency area and the links between the APEC and the SAARC. Regular and mutual surveillance on monetary, fiscal, and exchange rate convergence, and policies that minimise exchange rate uncertainty and work towards a currency club area based on a common anchor—initially the dollar—are needed. Setting up of an Asian Monetary Fund is

also suggested, one that is closely modelled on the original IMF articles of agreement and will provide an anchored fixed exchange rate system.

Arize et al. (2000) examined real exchange rate volatility on the exports of 13 less developed countries with quarterly data series for the period 1973-1996 using Johansen's multivariate procedure for long-run and error correction model to analyze the short-run dynamics. Their study reveals a significant negative impact of volatility on export flows.

Reinhart (2000) probes the mirage of floating exchange rates. The data are collected from six countries in Africa, Asia, Europe, and the Western Hemisphere during the January 1970-April 1999. It resulted Policy intervention to smooth exchange rate fluctuations does not appear to be limited to transactions in foreign exchange markets. While interest rates in the United States and Japan are predominantly set with domestic policy objectives in mind, interest rate policy in most of these other countries accord a much higher weight to the stabilization of the exchange rate.

Hassan (2000) reviewed Trade relations with SAARC countries and trade policies of Bangladesh. The time period of the study was from 1992-1997. It resulted the impact of GDP and of exchange rate and its variability on the export on the export and the import growth of Bangladesh. The nominal and effective tariff levels and non-tariff barriers hinders the growth of Bangladesh global trade with developing countries.

Betts and Devereux (2000) investigated Exchange rate dynamics in a model of pricing-to-market. It resulted that PTM (pricing-to-market) affected the international transmission of monetary and fiscal policy. The higher is the degree of PTM, the lower is the comovement in consumption across countries, but the higher is the comovement in output. In terms of welfare, monetary policy is a "beggar-thy-neighbor" instrument in the presence of a high degree of PTM.

Flood and Rose (1999) analysed Understanding exchange rate volatility without the contrivance of macroeconomics. The tools used in the study are macro-economic models, non-linear models. It resulted that exchange rate volatility differed systematically.

Dominguez(1998) examined Central bank Intervention and Exchange rate volatility. The data was collected from the period of 1977-1994. The tools used are GARCH model. It resulted that central Bank intervention operations generally increased exchange rate volatility..

Bandara and McGillivray (1998) made an attempt to Trade Policy Reforms in South Asia. The period of the study was 1980-1990. The South Asian economies had performed well in economic terms than their Eastern neighbours. Restrictive trade policies had often been cited as one factor explaining this poor performance. Both unilateral and preferential trade liberalisation policies had been initiated and implemented by these countries. The 1990s represent a period of genuine and successful trade reform, a sharp contrast with the previous four decades. It reviews the achievements.

Shoham et al. (1998) examined that channel support in the form of visits and trained personnel positively impacts export sales and the growth in international profits, although the international profits or the growth in export sales are not altered. The study found that a low price negatively influences export sales. The advertising (encompassing 'heavy advertising', 'building brand awareness', and 'building a reputation') seems not important for export sales or profit. It might even harm international profit growth for manufacturing exporters. Hence, cost-cum-price reduction is more important for export performance.

Faik Bilgili (1998) investigated Stationarity And Cointegration Tests: Comparison Of Engle - Granger And Johansen Methodologies. The sample was selected from Canada, India, Italy, Japan, Turkey and the USA. Engle-Granger methodology follows two-step estimations. The first step generates the residuals and the second step employs generated residuals to estimate a regression of first differenced residuals on lagged residuals. Hence, any possible error from the first step will be carried into second step. The Johansen maximum likelihood methodology circumvents Engle-Granger methodology by estimating and testing for the presence of multiple cointegrating vectors through largest canonical correlations. Some Monte Carlo evidence explores that Johansen procedure performs better than both single equation methods and alternative multivariate methods. In fact, evidence of this paper reveals, as well, that, as Engle-Granger yields some inconclusive outcome, the Johansen tests reach at least one cointegration relationship among variables for Canada, India, Italy, Japan, Turkey and the USA. Then, one may claim that Johansen methodology dominates the Engle- Granger methodology in cointegration analyses.

Katsikeas et al.(1997) explored that the factor 'product competitiveness' does not have any impact on the degree of internationalization, encompassing product quality control', but also competitive pricing and packaging. This non-significant result can be due to the somewhat different nature of the underlying items, such as price and product packaging.

Lumsdaine and Papell (1997) taken Multiple trend breaks and the unit-root hypothesis. The tools used is Unit Root Hypothesis and Philips perron test. It resulted the econometric theory of endogenous one-break models extends to the case of two breaks. Limiting distributions allow standard inference and critical values. Vogelsang (1994) shows that power is non monotonic when a one-break model is estimated on data that contain two breaks. This is similar to the original point made by Perron (1989); models that do not account sufficiently for structural change are mis specified and inferences may then suggest excessive persistence.

Hung (1997) investigated Intervention strategies and exchange rate volatility: a noise trading perspective. The period of the study was from 1985-1989. It's result made a sense in a noise trading framework where the effectiveness of sterilized intervention might depend critically on the shrewdness of intervention strategies. Depending on circumstances, central banks may use noise trading channels through covert intervention, or activate signaling channels through overt intervention. The intervention-exchange rate volatility relationship might change as intervention strategies adjust to differing circumstances.

Richard A. Ajayi et.al (1996) analysed On The Dynamic Relation Between Stock Prices And Exchange Rates. The sample for the study includes eight advanced economies. It examines the intertemporal relation between stock indices and exchange rates. An error correction model (ECM) of the two variables is employed to simultaneously estimate the short- run and long- run dynamics of the variables. The ECM results reveal significant short- run and long- run feedback relations between the two financial markets. Specifically, the results show that an increase in aggregate domestic stock price has a negative short- run effect on domestic currency value. In the long run, however, increases in stock prices have a positive effect on domestic currency value. On the other hand, currency depreciation has a negative short- run and long- run effect on the stock market.

West and Cho (1995) reviewed The predictive ability of several models of exchange rate volatility. The period of study was from 1973-1989. The tools used are GARCH, autoregressive and nonparametric models. It resulted the models that allow for seeming or actual drift in unconditional moments might result in superior performance.