The Macroeconomic Factors Affecting Exchange Rate: Analysis of the ARDL Model

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ABSTRACT

Introduction - The purpose of this study is to identify the impact of macroeconomic factors on the exchange rate for the period of 2009-2017.
Design/Methodology/Approach - Data is collected from secondary data sources by Web site of Central Bank of Sri Lanka data library under the economic indicators and Web site of Senses and Statistic Department. The sample is monthly time series data over the period of January of 2009 to December of 2017. Auto-Regressive Distributed Lag model is used to analyze the long run relationship between selected macroeconomic variables and exchange rate (used E-views 9 version).
Findings - Auto regressive Distributed Lag (ARDL) model discovered there is a negative significance relationship between inflation rate and exchange rate. As well as positive significant relationship between the import and exchange rate. In this model interest rate and export are insignificant relationship with exchange rate movement.
Conclusion - Paying more attention towards the time span can also be increase in the future studies and suggest using quantitative as well as qualitative macroeconomic factors affecting to the exchange rate for further researches.

Keywords: *Auto-Regressive Distributed Lag Model, CUSUM Test, Error Correction Model, Bound test, Co-integration.*