

This work represents an attempt to observe exchange rate volatility impact on international trade flows decomposed into intermediates and final products.

Existing production chains are costly and sometimes risky to relocate.

This thesis aims to test that belief and further, tests assumption that demand for final products is more elastic with respect to foreign exchange rate volatility than that with intermediates.

It uses data from 2000 to 2014 and employs gravity model of trade on the sample of 43 countries.

Country pair Fixed effects and Bonus Vetus OLS are then used as method of estimation.

This work emphasizes proper theory-consistent estimation.

It stays in line with contemporary empirical literature only a small negative overall effect is estimated.

I find that when foreign exchange rate volatility grows by 10% trade is reduced by less than 0,5%.

Regarding expected difference in effect of elasticities I however remain inconclusive.