Abstract

This master's thesis investigates the impact of exchange rate volatility on trade balance of the Czech Republic during 2005-2016. The analysis is performed on the constructed panel dataset for 53 trading partners of the Czech Republic by estimating the trade gravity models. The realized volatility values are obtained for 43 Czech koruna pairs against the local currencies. The variables included into the empirical analysis are the GDP and population of the Czech Republic and its trading partners, realized volatility, weighted distance, contiguity, direct access to the sea and information on EU and OECD membership. The methodological approaches in the analysis are calculations of realized exchange rate volatility and for gravity models panel data estimation techniques: pooled OLS, fixed effects and random effects. The gravity models are compared by the formal tests, and the most efficient among them is the fixed effects. The results of the estimated augmented model reveal significant positive impact of exchange rate volatility on trade balance of the Czech Republic. The key variables that have the expected significant positive impact on trade balance are GDP of the Czech Republic and its trading partners in the basic model, population of the Czech Republic and EU membership in the augmented model.

JEL Classification	A12, C23, F14, F31
Keywords	gravity model, panel data, foreign trade, Czech Republic, exchange rate volatility
Title	Exchange Rate Volatility Effect on Trade Balance in the Czech Republic