

Abstract

The purpose of this paper is to analyze the influence of exchange rate volatility to macroeconomics performance before and during floating exchange rate system. The monthly data for about fifteen years will be separated into managed floating periode (1990.1 – 1997/7) and free floating periode (1997/9 – 2005-3).

We apply unit root test, lag length criteria using VAR estimates and Johansen-Joselius cointegrating test before applying cointegrating vector error correction models (VECM) that explain VECM estimates including impulse response function and variance decomposition analysis.

VECM estimates suggest that in the long run, there is no significant relationship between exchange rate volatility and macroeconomics variables for both exchange rate system. But in the short run, VECM estimates a short run cointegrating relationship between exchange rate volatility and export. Generalized impulse response function are estimated to investigate the response of macroeconomics variables to shock from exchange rate volatility. Variance decomposition analyzes the contribution of exchange rate volatility to macroeconomics variables.

Keywords: Exchange rate volatility, managed floating exchange rate system, free floating exchange rate system, macroeconomics performance, vector error correction model (VECM), impulse response, variance decomposition