

Causality Effect and Exchange Rate Volatility of Sri Lankan Rupee and Emerging Asian Currencies against USD

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This study examines the long-run volatility and causality effects of Sri Lankan (LKR) currency and nine currency of emerging countries in Asia against USD over 15 years i.e., from 01st January, 2002 to 31st December, 2018. A descriptive statistics and Graphical model were specified and empirical results showed a significant currencies movements. The Granger causality test indicates the strong evidence that the causation runs between Sri Lankan currency (LKR / USD) to nine Asian emerging countries currency price behavior against USD. The purpose of the study is to make a finer point with respect to relationship, volatility and causality effect between the Sri Lankan currency and Asian Emerging countries currency returns against USD. It is found that the significant uni-directional causality effects and relationships among the sample currency data series with LKR against USD. Hence, this result would help to international portfolio managers, multinational corporations, and policymakers for decision-making in the Asian region.

Keywords: *Foreign Exchange Market, Granger Causality, Correlation, Exchange Rate Volatility, Asian Emerging Countries and Sri Lanka (LKR/USD)*

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