

2019 Professional Development Grant Report
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B. Restatement of problem researched, creative work, or professional enhancement opportunity

Presentation: Monetary Policy and Exchange Rate Volatility of the Mexican Peso against the US Dollar.

Abstract: This paper examines the impacts of monetary policy announcements on exchange rate volatility of the Mexican peso, a currency that is representative of emerging market currencies, against the US dollar. Narrow windows around policy announcements and high frequency second-by-second intraday data are used in the analysis. The advantage of using intraday data is that it enables us to better isolate the response of exchange rate movements to monetary announcements, and separate those from other possible shocks that may take place several times a day. To examine the impact of announcements on the volatility, we divide the announcement period into pre-announcement period (fifteen minutes before the announcements), contemporaneous period (five minutes after the announcement), and post-announcement period (fifteen minutes after the “contemporaneous period”). While incorporating monetary policy announcement from both the US and Mexico, We find that US monetary policy announcements have greater impacts on the volatility relative to Mexican monetary policy announcements, although both of them lead to significant increase in the volatility around announcements. Furthermore, the increase in volatility resulting from the US announcements last for all the pre-announcement, contemporaneous and post-announcement periods, while the Mexican announcements cause an increase over only the first two periods. In other words, the impact of US monetary policy tends to be more persistent than Mexican monetary policy with respect to peso/dollar volatility.

While the peso/dollar volatility responds to both US and Mexican monetary policy announcements, it is found that US announcements are more important with respect to the significance of its impact on exchange rate volatility, while Mexican announcements are less influential. It can be concluded that the US, as the largest and most advanced economy in the world, has a dominant influence on the foreign exchange market relative to Mexico, an emerging market economy. Therefore, Mexican market participants and policy makers need to keep a close watch on the systematic risk caused by the monetary policy announcements originated from both countries.

C. Brief review of the professional enhancement opportunity, creative work, or research procedure

I presented my research paper titled “Monetary Policy and Exchange Rate Volatility of the Mexican Peso against the US Dollar” at the Annual Meetings of the Southern Economic Association in Fort Lauderdale, FL in November 2019. The Southern Economic Association was founded in 1928 and the annual conference attracts thousands of domestic as well as international scholars from more than 94 countries to share research methods, interests and findings in economics.

D. Summary of findings, outcomes, or experiences

This paper studies the impacts of monetary policy announcements on exchange rate volatility of the Mexican peso against the US dollar. I presented this paper and chaired in session 3.K.11 “Money and Debt”. My paper generated the most discussion among the three papers in the same session. One of my coauthors, Dr. Susan Pozo from Western Michigan University, also attended the session, and we discussed how we would like to review the paper. Besides, I attended many other sessions that focused on monetary economics and international economics while attending the conference, which allowed me to gain new ideas for research and potential collaboration opportunities.

E. Conclusions and recommendations

We plan to include more information about the monetary policy announcements made by the Federal Open Market Committee according to the discussion with the attendees and my coauthor during and after the session. I gained valuable feedback and experience from this opportunity, which was very beneficial to my research and professional career. I am very grateful for the Professional Development committee for providing me with this opportunity to present my research and attend the conference.