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# Analysis of Volatility Spill over between Oil Price and Exchange Rate in India: GARCH Approach

Shekhar Mishra and Dr. S.S. Debasish

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The present paper endeavours to analyse the volatility spill over between crude oil price and exchange rate for India using daily data for time period June 2003 to March 2016. To examine the impact of oil price on exchange rate of Indian Rupee against U.S. Dollar, Generalised Autoregressive Conditional Heteroskedasticity (GARCH) and Exponential Generalised Autoregressive Conditional Heteroskedasticity (EGARCH) models have been employed. The analysis reveals that an increase in oil price return leads to depreciation of Indian Currency with respect to U.S. Dollar. The study establishes that positive and negative oil price shocks have similar effects, in terms of magnitude, on exchange rate volatility and also have permanent effect on exchange rate volatility.

**Keywords:** GARCH, EGARCH, Crude Oil Price, Exchange Rate.

**JEL Classification:** E45; G11; G15



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India is considered to be one of the fastest growing economy in the world. Macroeconomic indicators such as interest rates, inflation, IIP, gold prices, stock prices, exchange rate etc play a crucial role in determining the growth as well as economic strength of any country in Global Arena. The exchange rate regime in India has evolved from pegged exchange rate to present floating exchange rate regime where exchange rate is determined by market forces of demand and supply. These market forces in turn are influenced by number of macroeconomic variables like inflation rate, stock prices, IIP, interest rates etc. With the increasing level of international trade and capital movements, exchange rate has become one of the important determinants of country's economic strength and has witnessed increased level of volatility during recent times. There are various factors which determine the exchange rate with international crude oil price being one of the most important factors. Crude oil being one of the most important resources of energy used in economic activities is also considered as a comparative advantage and one of the strategic resources for country.