

EXPLORING THE INTERACTION BETWEEN OIL PRICE AND NOMINAL EXCHANGE RATE: AN ARDL-CO-INTEGRATION APPROACH

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Abstract

This study examines the impact of oil price on exchange rate for the period span from 2000 to 2017. We employing bounds testing procedure proposed by Pesaran et al(2001) and the Autoregressive distributed lag approach has been applied as yields consistent estimates of the long-run coefficients that are asymptotically normal irrespective of whether the underlying regressors are $I(0)$ or $I(1)$. Empirical results reveal that all variables are $I(1)$. In addition results demonstrate the existence of a negative relationship between the variables in the short and long term. The ECM based upon ARDL approach captures the short run dynamics of variables and confirms that the value of lagged ECM is negative and no significant at 1% level of significance.

Keywords: oil price, exchange rate and ARDL co-integration approach.

JEL classification: C13, C22, C32.