

**EXPOSURE TO PERMANENT AND TEMPORARY EXCHANGE-RATE SHOCKS  
OF INDUSTRIES IN THAILAND**

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**ABSTRACT**

The study proposes an alternative approach for testing exposure of firms to foreign exchange risk. It allows asymmetric response of firms to permanent and transitory shocks in the exchange rate in a positive or negative direction. It is motivated by the fact that firms may respond to permanent and temporary shocks in the exchange rate in a different way and that firms may devise business strategies to benefit from currency appreciation and depreciation.

Using monthly, real returns from December 1984 to June 1997 on industries classified by the Stock exchange of Thailand, the study finds that the industries responded to both permanent and transitory shocks and that the response was asymmetric to the shocks in a positive and negative direction. The finding supports the fact that the industries devised strategies to cope with both currency appreciation and depreciation. Moreover, the test proposed by this study can detect significant exposure for many more cases than the conventional tests can. The asymmetric response may help to explain why the conventional tests cannot detect the exposure of firms to foreign exchange risk.

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