

# OIL PRICES AND REAL EXCHANGE RATES

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## **Abstract**

Fluctuations in oil prices during the last decade have reignited the interest in the “Dutch Disease” hypothesis. The paper aims at identifying the presence of the Dutch Disease and at assessing the importance of choosing the exchange rate regime that is less vulnerable to the consequences of the Dutch Disease. Using threshold autoregressive (TAR) model, the paper tests the validity of the Dutch Disease hypothesis on the largest 19 oil-exporting countries. As a result two countries - Nigeria and Norway - were identified as experiencing the disease. The hypothesis that countries operating under a fixed exchange rate regime experience the consequences of the Dutch Disease severely was tested using the random effects model, identifying government expenditure (*GE*), the flow of Foreign Direct Investment (*FDI*), money supply (*M2*), GDP per capita (*IGDPcap*), GDP growth (*GDP*), terms of trade (*Terms*), trade openness (*Openness*), and oil rents (*Rents*) as additional determinants of the Dutch Disease. The study used the value added of the manufacturing sector as a proxy measure to the presence of the Dutch Disease. According to the results, countries operating under fixed exchange rate regime on average have 2.31% less value added from the manufacturing sector, suggesting that those countries face more severe consequences.

**JEL Classification:** C32 · F31 · F37 · F47

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