

## **EXCHANGE RATE VOLATILITY AND TRADE FLOWS: THE EU AND TURKEY**

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This study analyzes the effect of exchange rate volatility on Turkish import demand by examining how historical exchange rate fluctuations have impacted trade flows between Turkey and its largest trading partner, the European Union, since its application for full membership to the European Economic Community (EEC) in 1987. Turkey has maintained strong ties to the countries of the EU since 1959. According to the European Commission, “the European Union (EU) ranks by far as number one in both Turkey's imports and exports while Turkey ranks 7th in the EU's top import and 5th in export markets”. The effects of volatility upon trade flows between these two parties are particularly important in light of Turkey’s continuing accession process with the EU. This study will empirically analyze exchange rate volatility and bilateral trade flow data derived through the application of Ordinary Least Square methodology to quarterly time series data collected for the period 1987:Q1 to 2011:Q4. Information gained from this study can be applied by countries experiencing periods of economic instability to develop potential actions to enhance or defuse similar effects.