

Investigating the Impact of Temporary and Permanent Exchange Rate Shocks on Stock Returns of Export Companies in Iran's Stock Markets

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Abstract

Sustainable economic growth requires the efficient allocation of financial resources to productive activities. The capital market and its returns play a crucial role in directing capital toward this goal. Stock returns are influenced by various macroeconomic variables, with the exchange rate (EXC) being one of the most significant. This research aims to investigate the impact of EXC shocks on the stock returns of Iran's export companies from January 2014 to April 2020 using the Structural Vector Autoregression (SVAR) method. The Blanchard-Quah technique is employed to examine the effects of both temporary and permanent EXC shocks on stock returns. The findings reveal that the stock returns of sectors such as cement, lime and plaster, chemicals, tile and ceramics, basic metals, pharmaceuticals, automobiles and parts, machinery and equipment, and food industries are most responsive to temporary EXC shocks, resulting in increased returns for these companies. However, permanent EXC shocks initially lead to a decrease in the return rate of export companies, but this effect adjusts to zero over subsequent periods. Thus, permanent EXC shocks do not have a lasting impact on the profitability of these companies. In the long run, EXC shocks are adjusted, and company profitability remains unaffected.

Keywords: Exchange Rate; Stock Returns; Export Companies; Blanchard-Quah.

JEL Classification: F31, G14, P13.

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