



SDI Review Form 1.6

PART 1:

Journal Name:	<u>British Journal of Economics, Management & Trade</u>
Manuscript Number:	MS: 2013_BJEMT_3232
Title of the Manuscript:	CURRENT ACCOUNT AND EXCHANGE RATE DYNAMICS IN PRESENCE OF RISK AND ECONOMIC SHOCKS.

General guideline for Peer Review process is available in this link:

(<http://www.sciencedomain.org/page.php?id=sdi-general-editorial-policy#Peer-Review-Guideline>)

- This form has total 9 parts. Kindly note that you should use all the parts of this review form.



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PART 2: Review Comments

	Reviewer's comment	Author's comment (if agreed with reviewer, correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)
<u>Compulsory</u> REVISION comments		
<u>Minor</u> REVISION comments		
<u>Optional/General</u> comments	1. This paper is a high quality research paper that incorporates both theories and empirical tests. The topic is very interesting and is on timely manner. As a reviewer, I thoroughly enjoyed reading the paper and I recommend accept the paper for publication AS IT IS. In this paper, authors develop a theory based on a two-period model of consumption and current account balance, and analyze dynamics of current account balance by considering various shocks to the economy, such as a slump in GDP, an increase in oil prices, a temporary increase in government spending, and falling interest rates. The impact of uncertainty (risk) on the model is also analyzed. To test the theory empirically, authors run a related regression using monthly data from 1999 to 2011. 2. In the empirical section, authors run a related regression to examine factors that are associated with either current account balance or the spot exchange rate between US dollar and euro, by controlling potential autocorrelation in the	



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	dependent variables by introducing MA(1), (2), and (3) into the regression. This is a very smart solution. However, since most independent variables involved in the regressions are non-stationary ones with unit root of one, I suggest authors consider adding cointegration tests and the error correction model (ECM) according to Engel and Granger (1987) to rule out the possibility of spurious regression. 3. The TED spread could be formally defined as the difference between the three-month LIBOR and the three-month US Treasury-bill rate. 4. "The spot exchange rate" could be formally expressed as the spot exchange rate between US dollar and euro. Reference Engle, Robert F., Granger, Clive W. J. (1987) "Co-integration and error correction: Representation, estimation and testing", <i>Econometrica</i>, 55(2), 251-276.	
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