

ABSTRACT

This undergraduate thesis aims to identify the Correlation between the exchange rate and trade balance performance in selected ASEAN-5 countries from 2005 to 2015. It is including the exports, imports, and nominal exchange rate data from each country. This study uses Unit Root Tests, Cointegration techniques, Engle-Granger test, Vector Autoregression (VAR) and Vector Error Correction Model (VECM), impulse-response, and variance decomposition analysis. The findings of this research are: (i) The exports and imports are co-integrated in all selected ASEAN-5 countries. Thus, it implies that all the countries are not in violation in their international budget constrains, and that trade imbalances are short-term phenomena which is sustain in the Long-term. (ii) in impulse-response and variance decomposition analysis, it is indicates that the trade balance variables are not really influence the exchange rate volatility in most of the selected countries.

Keywords: *Co-integration, exports, imports, trade balance, exchange rate, VAR/VECM.*