# Exports and FDI under Asymmetric Demand and Exchange Rate Uncertainty[#]

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**Abstract**

In this study, I analyze exports, foreign direct investment, and their joint pattern under asymmetric demand and exchange rate uncertainty. The uncertainty in this study relates to shocks to country and industry level expenditure in the destination market, and shocks to bilateral exchange rate. Using detailed industry-level data on trade and affiliate sales for a large number of home and destination countries, I find that second and third moment shocks to destination demand and bilateral exchange rate affect the aggregate and industry-level flow of exports, FDI, and their joint pattern. By focusing on asymmetric uncertainty, I uncover several novel results concerning the response of exports, FDI, and their joint pattern to the skewness of shocks in three economic variables. Novel result concerns the positive response of ratio of exports to FDI to the third moment of demand shocks, and exchange rate depreciation. In addition, by exploring the effects of asymmetric uncertainty on intensive and extensive margins, I find that the skewness of shocks affects the choice between exports and FDI both at the intensive and the extensive margins. I, then, utilize a mean-variance-skewness utility function of profits in destination market to explain these novel empirical findings.

*Keywords*: Asymmetric Uncertainty, Proximity Concentration Trade-off, Multinational firms, Foreign direct investment, International trade, Exchange Rate

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