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**Anticipated and Unanticipated
Exchange Rate Movement,
Output and Inflation in South Africa**

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Abstract

This paper presents and tests a model to determine how either or both anticipated and unanticipated exchange rate movements affect real output growth and inflation in South Africa. The Barro two-step estimation procedure was explored using Cointegration and Error correction modelling technique. Also, the effect of business cycles in the industrialised countries on output growth in South Africa was pursued. The results throw light on the effectiveness of exchange rate policy in South Africa and lessons are drawn for other emerging market economies.

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