

VIII. EXCHANGE MARKET VOLATILITY AND SECURITIES TRANSACTION TAXES

Introduction and summary

Foreign exchange markets are essential to the functioning of the international economy. However, they sometimes appear to be excessively volatile and occasionally their movements have been disruptive. Exchange rates that are overly volatile and out of line with economic fundamentals can impose real costs on the economy, not least through their effects on international trade and investment. Moreover, at times, pressures from exchange markets have complicated the setting of monetary policy.

Foreign exchange markets, at times, appear volatile and disruptive...

Concerns about foreign exchange market volatility have led a number of economists, policy makers and others to advocate countervailing measures. The most well known proposal consists of levying a tax on all foreign exchange transactions. This proposal, often referred to as the “Tobin tax”,¹ is a special case of a securities transaction tax. Such a tax imposes a particularly heavy burden on those who hold assets, such as foreign currency, for relatively short periods. Because the volume of transactions in exchange markets is very high – over one trillion dollars a day – some more recent advocates have also argued for the “Tobin tax” on grounds of its potentially very large revenue yield. These funds, it is thought, could be used to finance worthwhile initiatives and in this regard official development assistance is often mentioned.

... a feature that has led some to advocate a “Tobin tax”

This chapter addresses a number of issues related to exchange market volatility and the potential effect of a “Tobin tax”. In the succeeding sections the following questions will be addressed and the main conclusions are briefly summarised here:

Are exchange markets excessively volatile?

It appears well established that movements in exchange rates, especially short-term movements, are often greater than can be explained by the “underlying economic fundamentals”. It is not clear how far this reflects movements clearly unrelated to fundamentals as opposed to over-reaction by traders to new economic data assessed as implying changes to fundamental determinants of exchange rates.

Evidence supports the view that exchange rates are overly volatile

1. His proposal was first laid out in the wake of the breakdown of the Bretton-Woods system of fixed (but adjustable) exchange rates. Others have also proposed such a tax, see for example, Dornbusch (1986), Stiglitz (1989) and Summers and Summers (1989). Recent interpretations of this proposal, while described as a “Tobin tax”, have in fact been at variance in important ways with the original idea, a point made by Tobin himself (Tobin, 2001). For the original proposal, see his Janeway lecture, delivered in 1971 and published in Tobin (1974). See as well, Tobin (1978).

Would a “Tobin tax” reduce volatility?

A “Tobin tax” cannot distinguish among types of transactions

No firm answer can be given to this question. A “Tobin tax” penalises high-frequency trading without discriminating between trades which may be de-stabilising and those which help to anchor markets by providing liquidity and information. Indirect evidence from other financial markets where a securities transaction tax has been in place suggests a substantial effect on trading volume but either no effect, or a small one of uncertain direction, on price volatility.

Do the potential benefits offset or balance the costs of such a tax in terms of economic efficiency?

Potential benefits appear to be small and the costs could be large

The evidence on whether or not exchange-market volatility hampers trade and investment is mixed – perhaps surprisingly so – and even those studies that find a negative effect estimate that it is small. This may be due to the general availability of low-cost hedging instruments. Nevertheless, if a “Tobin tax” were to reduce volatility, the price of hedging instruments might decline significantly. At the same time, there would be less of a need for them. On the cost side, volatility could rise rather than fall, because of an indirect effect on liquidity, and the “Tobin tax” could hit particularly hard at those trades that enable low-cost hedging to take place. On balance, the downside risks would appear to outweigh the potential benefits.

Could such a tax be implemented?

Implementation difficulties could well prove insurmountable

In principle, a “Tobin tax” would have to be implemented on a world-wide basis and possibly also across other financial (and some real) markets. If not, trading would tend to migrate to other, non-taxed jurisdictions, which may well be less regulated than existing venues, or participants could use other financial (or real) vehicles to achieve the same end. The political mechanisms to implement and enforce such a tax are not currently in place.

What is the potential revenue yield from a “Tobin tax”?

Revenues would probably be less than some have suggested

If it were possible to implement, the revenue yield from such a tax could be significant, though probably much smaller than suggested by current turnover in exchange markets, in good part because the tax base itself is likely to fall. Even so, earmarking the revenues from such a tax for specific, albeit highly legitimate, expenditures, like official development assistance, would seem to be neither an economically efficient nor a politically appropriate way in which to finance such expenditures.

Are exchange markets excessively volatile?

Foreign exchange markets are more volatile than bond markets but less so than those for equities

Interest in a “Tobin tax” has increased, despite the fact that foreign exchange rate volatility has shown no particular trend over the past two decades (Table VIII.1). Compared with other financial markets, for which there has been less discussion of transaction taxes, volatility of exchange markets is generally lower than that of equity markets but higher than for relatively safe, fixed-income securities such as government bonds (Tables VIII.2 and VIII.3). Whether such exchange rate volatility as can be observed is excessive remains a somewhat controversial issue. However, volatility in foreign exchange markets at monthly frequencies cannot easily be explained by looking at

Table VIII.1. **Historical volatility of foreign exchange rates vis-à-vis the US dollar***Standard deviation of annualised daily returns in per cent*

	Japan	Germany	France	Italy	United Kingdom	Canada	Switzerland
1980-2001	10.75	10.64	10.46	10.30	9.99	4.44	11.65
1980-1984	10.05	10.44	10.90	9.73	9.91	3.70	11.49
1985-1989	10.34	11.42	11.05	10.79	11.92	4.30	12.53
1990-1994	9.69	11.18	10.68	11.65	10.87	4.33	12.12
1995-2001	12.13	9.75	9.45	9.23	7.56	5.05	10.72
Maximum ^a	31.86 (26-10-1998)	25.13 (08-10-1992)	23.69 (08-10-1992)	39.82 (08-10-1992)	26.72 (04-04-1985)	12.56 (08-10-1998)	27.28 (31-03-1995)
Minimum ^a	3.30 (12-03-1987)	3.16 (26-12-1994)	2.67 (26-12-1994)	1.92 (26-12-1994)	2.55 (15-03-1996)	0.66 (21-11-1983)	4.48 (16-05-1988)

Note: The exchange rates are noon buying in New York for cable transfers payable in foreign currencies.

a) Maximum and minimum of historical volatility are the highest and lowest level of one-month historical volatility during the whole time period 1980-2001. The one-month historical volatility is computed over moving windows of one-month (20 business days).

Sources: Federal Reserve Bank of New York and OECD.

Table VIII.2. **Historical volatility of equity market indices^a***Per cent, per annum*

United States S&P500	Japan TOPIX	Europe DJ Euro Stoxx	United Kingdom FTSE100
1980-2001	1980-2001	1987-2001	1984-2001
16.18	17.28	16.59	15.72
	1995-2001		
17.45	19.67	18.79	16.65

a) Historical volatility is computed as the standard deviation of annualised daily returns over the time period specified.

Sources: Datastream and OECD.

Table VIII.3. **Historical volatility of 10-year government bonds^a***Per cent, per annum*

United States	Japan	Germany	France	Italy	United Kingdom	Canada
1980-2001	1984-2001	1980-2001	1985:2-2001	1991:4-2001	1980-2001	1985-2001
8.27	5.91	5.16	6.56	7.28	8.56	7.39
			1995-2001			
6.70	5.35	5.08	6.09	6.25	6.22	6.50

a) Historical volatility is computed as the standard deviation of annualised daily returns over the time period specified.

Sources: Datastream and OECD.

Figure VIII.1. Historical volatility of exchange rates

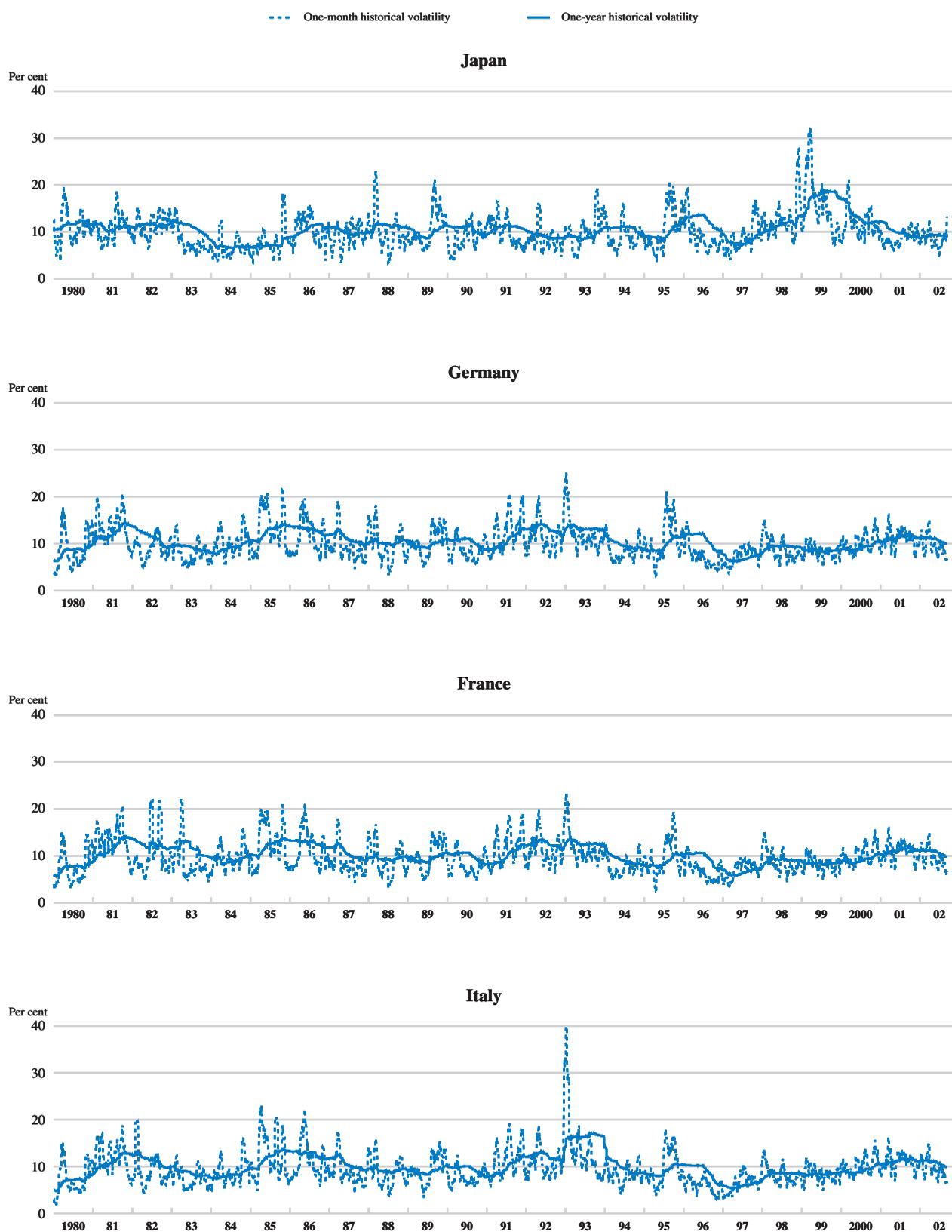
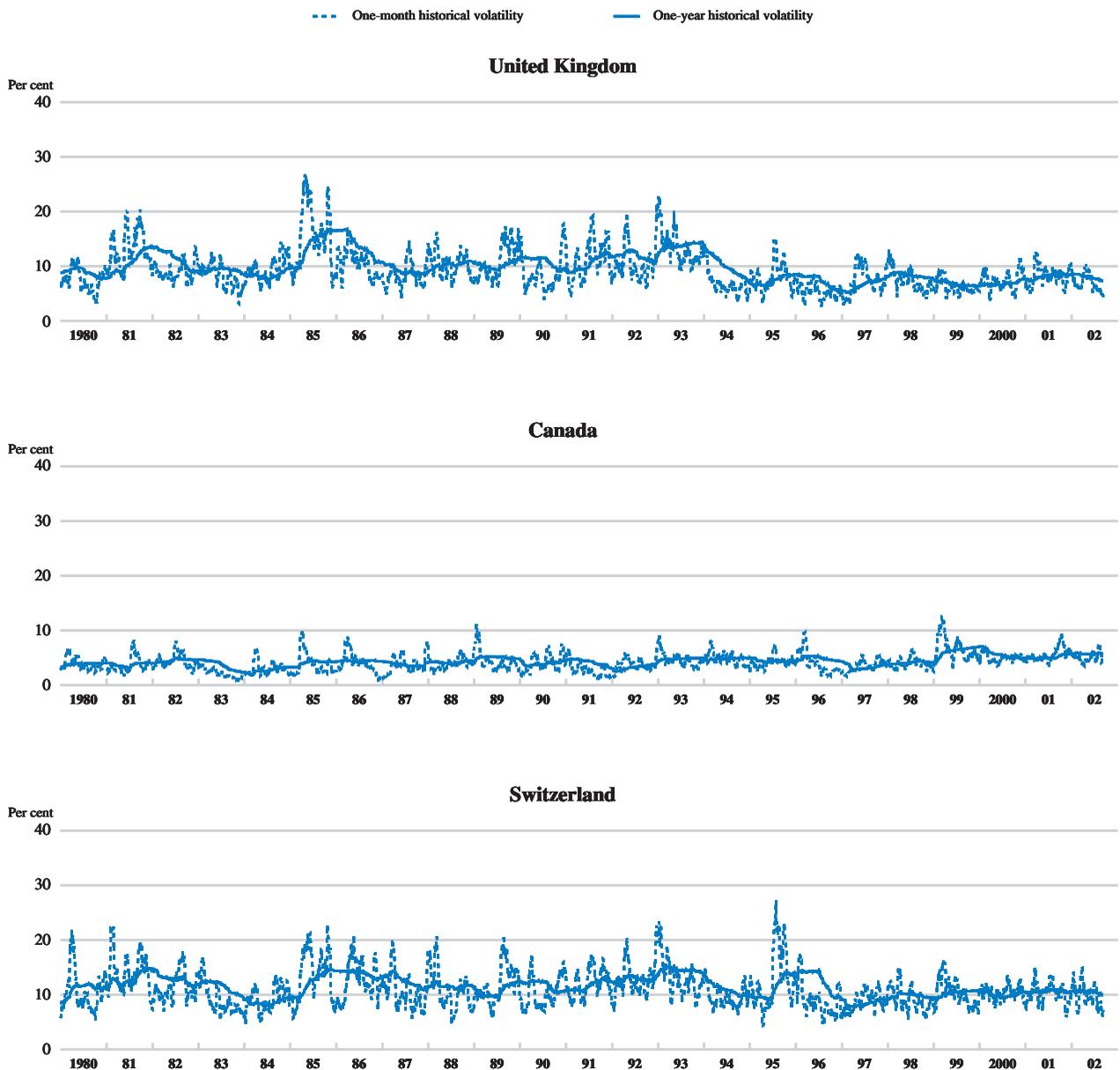


Figure VIII.1. Historical volatility of exchange rates (cont.)



Note: The one-month historical volatility is computed daily as standard deviations over moving windows of one month (20 business days) and the one-year historical volatility over moving windows of one year.

Source: Federal Reserve Bank of New York and OECD.

movements of what are thought to be underlying economic fundamentals.² Moreover, at high frequencies, such as daily observations, exchange rate volatility is higher still (Figure VIII.1),³ which is suggestive of “noise” in the setting of exchange rates. It is in this sense that volatility has often been labelled as excessive.

2. See Flood and Rose (1999) and Bartolini and Giorgianni (2001). These findings are in line with those in other financial markets. Shiller (1981) was the first to point out this fact by noting that stock prices were excessively volatile with respect to underlying fundamentals.

3. The volatility of exchange rates at an intra-day level is even larger.

*The causes of excess volatility
are unclear...*

The observed positive correlation between the extent of trading and volatility has led to a focus on trading behaviour with suggestions that destabilising speculation (“noise trading”) is what drives prices. However, correlation does not necessarily indicate causation but could reflect that both trading volumes and prices respond to the arrival of new information. Hence the correlation between trading and volatility does not provide any conclusive evidence.

*... with little evidence that it
reflects over-reaction to news*

Alternatively, excess volatility could be the result of traders over-reacting to new information or incorporating into prices information that is not relevant. Empirical evidence on what type of information affects markets is still relatively scarce and not yet conclusive. Some studies distinguish between public information, such as the publication of new statistics, and private information not shared by others, such as knowledge that a particularly large amount of currency had to be converted. Indeed it appears that a sizeable part of volatility is associated with private information, but this does not necessarily imply that such information is not related to fundamental developments. Finally, insofar as the arrival of new information involves some initial mispricing, the subsequent correction would imply more trading and price movements, further strengthening the correlation between trading and volatility. However, the very limited evidence on this question ascribes only 4 to 12 per cent of the daily exchange rate variance to such mispricing.⁴

Would a “Tobin tax” reduce excess volatility?

*The “Tobin tax” is targeted at
frequent traders...*

The appeal of a “Tobin tax” is that it would have a strong deterrent effect on traders with very short-term holding periods who, despite the lack of corroborative evidence discussed above, are often thought to be the main cause of excessive volatility. As an illustration, for a 0.5 per cent transaction tax and an assumed holding period of a day, these participants would require a 287.7 per cent return (annualised) before tax to get an after-tax return of 4 per cent. Such high returns may be available, even in risk-weighted terms, at times of intense pressure on a currency and the tax may have limited impacts in such episodes (see Box VIII.1).⁵ In more normal times, however, such a tax may discourage short-term holdings. For traders with one-year or longer holding periods, on the other hand, the burden of the tax is small to negligible. The implication is that such a tax has the potential to severely limit short-term activity but would have only small effects on traders who take longer-term positions.⁶

4. See French and Roll (1986); Ito *et al.* (1998); and Melvin and Yin (2000) on some of the issues covered in this paragraph.

5. See Hakkio (1994). Most analysts feel that such a tax would not be able to prevent speculative attacks like those experienced against various emerging market currencies as well as those against some of the ERM countries during the early 1990s. Nonetheless, the tax may reduce the extent of open positions that can be closed out as an attack unfolds.

6. A “Tobin tax” could conceivably also encourage structural change in exchange markets. A feature of these markets is their lack of transparency; the lack of publicly available information on prices and volumes of transactions can lead to both more trading and higher volatility. By raising transaction costs, a “Tobin tax” could create an incentive to change the structure to a more transparent one, where less trading would be required and where liquidity could be provided by customers who would stand ready to buy or sell at agreed upon prices. It is not clear, however, that more transparency would be associated with lower volatility since it would lower the value of private information, reduce the ability of dealers to manage risk and lead to lower holdings of inventories. As a result, market liquidity could be hampered, bid-ask spreads widened and price volatility increased.

Box VIII.1. Volatility and misalignments

Not all volatility is harmful. Indeed, when fundamentals change, it makes sense for exchange rates to change as well. Moreover, sometimes exchange rate changes may assist economic policy. For example, a fall in the value of the exchange rate when monetary policy is relaxed during a period of economic weakness would help the economy to return towards its equilibrium level. The same is true if a country suffers an adverse terms-of-trade shock. At the other extreme, a rise in the exchange rate in response, say, to a very expansionary fiscal policy or a positive terms-of-trade shock when growth is already healthy, would tend to limit potential inflationary implications. In each case, exchange rate changes can be helpful.

It is possible to keep volatility low, through a fixed (but sometimes adjustable) peg of the currency to another. This, however, can be a mixed blessing. Artificially low volatility may induce enterprises, financial intermediaries and even private citizens to take on more foreign exchange exposure (and extra risks) than can be safely borne. If the currency arrangement proves impossible to maintain, perhaps because of underlying domestic imbalances and problems, then a speculative attack is likely. This will lead to disruptive adjustments, the intensity of which will depend, in part, on the size of the underlying positions that have been accumulated.

For the country involved, it can be particularly painful if the domestic financial system is not well developed. This is why countries with fragile financial systems are encouraged to bring these into better shape before fully opening up to all capital flows.¹

A “Tobin tax” is unlikely to prove effective in helping a country maintain an exchange rate arrangement that has become untenable. The returns that have typically been earned in speculating against a currency in these circumstances have been more than large enough to offset the burden of the tax. This appears to have been true for a number of emerging-market economies but as well for advanced economies.²

Exchange rates at times have become misaligned in relation to fundamentals. An example that is sometimes quoted is the appreciation of the Japanese yen against the dollar (to 80 yen by April 1995) and its subsequent depreciation. Developments such as these have proven to be very disruptive to both the functioning of exchange markets, but also for economic activity in general. These events are not well understood but, at the same time, it is not clear whether a “Tobin tax” would be able to play a preventive role.

1. See OECD (1999) and Dornbusch (2000).

2. See Frankel (1996).

Limiting high-frequency trading does not necessarily reduce volatility, however. By raising transaction costs, the tax would penalise high-frequency activity undertaken by traders attempting to manage risk exposure, which, in turn, could have adverse effects on market liquidity. And in a thin market, each trade would tend to have a larger impact on the price, possibly implying an increase in volatility. Indeed, dealers in foreign exchange markets, who serve the important role of providing liquidity, will have to adjust their inventories of foreign exchange at times, particularly if they receive large orders.⁷ In the process of finding other dealers or brokers to take their positions, trading can exceed the size of the initial order. This activity, however, is the result of risk management activity on the part of liquidity providers. A “Tobin tax” would interfere with this process and in the end raise the costs of those participants who are providing liquidity to markets.⁸

... but may make markets less liquid

Since a “Tobin tax” has not yet been implemented, there is little direct evidence of its effects on volatility. The above-mentioned broad constancy of exchange rate volatility over the past couple of decades, when technological change and regulatory reform acted to lower transaction costs, does not support the argument that a rise in the latter would damp volatility. Apart from such circumstantial evidence, some indications may be had from experiences with types of securities transaction taxes

Experience in other financial markets suggests a small, uncertain effect

7. This is sometimes referred to as “hot potato” trading. See Lyons (2001).

8. As well, such a tax would discourage the entry of new traders and in the process reduce opportunities for risk sharing.

imposed on other financial markets, and here the evidence has tended to be mixed. Analysis of the UK stamp duty (which in 1986 was reduced to 0.5 per cent on the purchase of shares and debentures) has shown that it tended to lower the price of securities but had no effect on volatility.⁹ Studies on both US markets and those of East Asia have come to similar conclusions.¹⁰ Germany also had in place a securities transaction tax until 1 January 1991. Just prior to its elimination volatility peaked and declined thereafter. The existence of these taxes in a number of equity markets did not appear to reduce volatility in the wake of the world-wide stock market crash in 1987.¹¹ Recent work looking at proxies for transaction costs on the Paris stock exchange, identified the potential upper limit of a reduction in volatility and concluded that the effect was, at best, economically small.¹² By contrast, a cross-country study found no significant influences of securities transaction taxes on stock market volatility.¹³

What is the balance between the potential benefits and costs?

Lowering volatility could reduce the costs of financial insurance

Lower volatility would directly affect the cost of insuring against adverse movements in exchange rates. Judged by the impact of volatility on the price of foreign currency options – important instruments for hedging foreign currency exposure – those cost savings could be significant (see Box VIII.2).

The effects of volatility on trade and investment are uncertain

While the cost of insuring could potentially be lowered, such costs are not high in the first place. Indeed, the availability of low-cost means to insure those engaged in international trade against adverse changes in currencies is often cited as a reason why empirically, a number of studies have found that, although volatility can potentially reduce the level of trade, the effect does not appear to be large.¹⁴

The tax could also have negative effects

The tax also has potential negative effects. To be effective, it would have to be applied to all instruments, including options and other vehicles used to insure against risk. This, however, would directly raise the cost of insuring, possibly by more than it would be lowered by any reduction in volatility. And as argued above, the risk is real that the tax would raise rather than lower volatility. Finally, and more controversial, to the extent that the tax reduced the ability of markets to respond to policy changes, it would reduce market discipline on policy.

Could a “Tobin tax” be implemented?

To be effective it would have to cover all foreign exchange markets...

If a “Tobin tax” is not implemented on a world-wide basis, activity will tend to migrate to tax-free jurisdictions. An illustrative example is provided by the transaction taxes on equities and bonds in Sweden. Following the doubling of the excise tax on share transactions to 1 per cent for both buyers and sellers and the introduction of

9. See Saporta and Kan (1997).

10. See Jones and Seguin (1997) and Hu *et al.* (1997).

11. See Hakkio (1994).

12. Hau (2001) looked at “tick” size changes (the minimum price variation rule) on the Paris stock exchange. He found that these variations were an important determinant of transactions costs and that an increase in tick size, roughly equivalent to 0.5 per cent STT, could lower volatility by 6 to 15 per cent.

13. See Roll (1989).

14. In fact, at a theoretical level, there does not appear to be a consensus about the direction or size of the relationship between trade and volatility. For a review of a number of theoretical and empirical studies on the relationship between trade and exchange rate volatility, see Côté (1994).

Box VIII.2. Option prices and volatility

Purchasing a currency option is one of the various methods (futures, forwards, foreign exchange swaps, etc.) employed to insure against foreign exchange risks. For example, a US exporter, with future receipts in euros but simultaneously facing domestic liabilities, may wish to hedge against adverse exchange rate movements, while benefiting from favourable ones. By buying a “euro put/dollar call” option contract, the option holder obtains the right, but not the obligation, to sell euros (buy dollars) at an agreed price (strike price) on a future date. If the strike price (quoted in US cents per unit of euro) is higher than the spot exchange rate at the future date, the holder would exercise the option. In exchange for insuring against an adverse exchange risk, the buyer of an option has to pay a price called the premium. Normally, higher volatility will mean higher option premiums, since that will imply that it is more likely that the option will pay off (*i.e.* the option will be in the money).¹

The change in the price of an option with respect to a change in volatility is measured by the option’s *vega*.² For example, a *vega* of 0.15 for euros against dollars indicates that

the premium for this option will change in absolute terms by 0.15 US cents per euro if volatility (measured by standard deviation) changes by 1 percentage point. In Table VIII.4, the values of *vega* for option contracts for euros, yen, pounds and Swiss francs are shown. *Vega* tends to be the highest for those options for which the hedging incentive is most relevant. The relative change in the cost of an option as a result of a 1 percentage point change in volatility is *vega* divided by the initial option price and in Table VIII.4 these are shown as per cent. Assuming that volatility can be lowered by 1 percentage point (perhaps by imposing a “Tobin tax”), the saving on buying a standard option would range from about 7 to 11 per cent depending on the currency.

The calculations shown here have to be interpreted with some care. The results are based on the “Black-Scholes” model of option prices, which assumes that volatility is constant. In reality, volatility is not constant and other models, which try to incorporate this feature could give different results.³ Nevertheless, the “Black-Scholes” model remains the most widely used for these types of calculations.

1. In relation to the price of the underlying asset, the option can be categorised into three different positions. If the strike price of the option is more favourable compared with the spot exchange rate for the holder, the option is said to be “in-the-money”; if the difference between the strike price and the spot rate is zero, “at-the-money”; if the strike price is less advantageous than the spot rate, “out-of-the-money”.
2. Technically, *vega* is the name given to the value of the first derivative of the price of an option with respect to volatility.
3. See as well Hull (1999) for various types of option price models that incorporate these features.

a 0.15 per cent excise tax on money market instruments and bonds in 1984, about half of the turnover in Swedish stocks moved to London, and trade with monetary instruments and bonds in Sweden declined by 80 per cent.¹⁵ The tax appeared to have no effect on domestic market volatility, while it was associated with a 2.2 per cent drop in the Swedish All-equity index the day it was announced and an increase in bid-ask spreads (a measure of transaction costs).

Other financial or real markets would also offer ways to avoid a “Tobin tax”. For example, oil or commodities contracts denominated in different currencies could be exchanged against each other. However, costs of transacting in foreign exchange would likely be higher and resource allocation to unproductive financial engineering would be encouraged.¹⁶ Finally, such a tax could increase the attractiveness of tax havens and off-shore centres.

... as well as other markets

15. The tax was levied on domestic securities brokers and this made it easy to avoid taxation by shifting trading abroad. Some observers have argued that a tax levied at the point of settlement would be less exposed to such shifting. See Umlauf (1993).
16. Such a tendency might offset one of the potential benefits of the “Tobin tax”, which would be a lower commitment of capital and labour to the activity of trading foreign exchange.

Table VIII.4. **Currency options contracts on Philadelphia Stock Exchange**

3 December 2001 (expiring in February 2002)

Underlying price	Call option				Put option			
	Strike price	Vega	Option premium	Per cent change in premium	Strike price	Vega	Option premium	Per cent change in premium
Euro								
89.06	88.00	0.15	2.31	6.67	90.00	0.15	2.03	7.54
Japanese yen								
80.55	80.50	0.14	1.67	8.56	81.00	0.14	1.47	9.83
British pound								
142.21	142.00	0.25	2.28	11.05	142.00	0.25	2.31	10.93
Swiss franc								
60.51	60.50	0.11	1.22	8.87	60.50	0.11	1.27	8.52

Note : Contracts shown are at-the-money. Underlying and strike prices are quoted in US cents per unit of foreign currency (with the exception of Japanese yen in hundredths of a cent). Option premiums are quoted in US cents per unit of the underlying currency (with the exception of Japanese yen in hundredths of a cent). Accordingly, a premium of 2.31 for a given call on euros is \$0.0231 per euro. *Vega* measures the price sensitivity of an option to a 1 percentage point change in volatility. For example, if volatility falls from 10 to 9 per cent, with a *vega* of 0.15, the option premium should decline from 2.31 to 2.16 for a call on euros.

Sources: Datastream, Philadelphia Stock Exchange and OECD.

What are the potential revenues from such a tax?

The revenues could be significant...

Given the high volume of trading in foreign exchange markets, some recent advocates of the "Tobin tax" suggest that it would raise substantial revenues that could be used for development assistance. In 2001, based on a survey of market activity by the Bank of International Settlements, the daily trading volume was estimated to be 1¼ trillion dollars (Figure VIII.2). Assuming 240 trading days and a tax of 0.5 per cent, the potential upper limit of tax revenues would be about 1½ trillion dollars, a sum out of proportion with that currently spent on overseas development assistance.

... although much less than some advocates have suggested

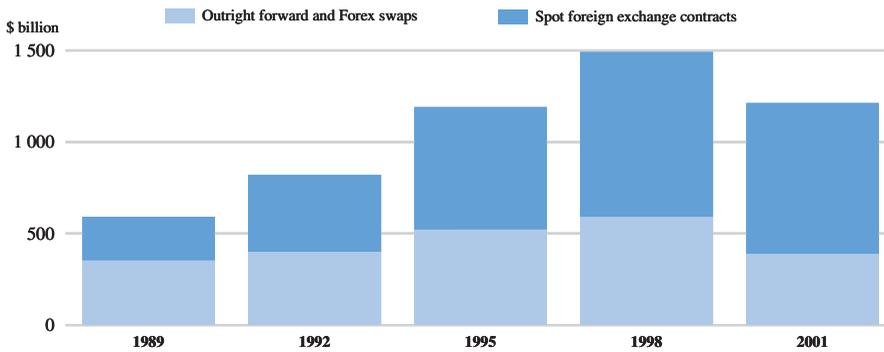
Abstracting from implementation issues, any estimate of potential revenues would have to allow for the effect that the tax would have on the base itself. A recent official report¹⁷ notes the following features of the foreign exchange markets:

- Transaction costs in this market are low. For interbank-market trading in major currencies, the price spread between buyers and sellers is 0.02 per cent, while for trading between banks and non-banking customers, the spread is about 0.10 per cent. Acknowledging a lack of empirical evidence on the sensitivity of trading volumes with respect to these spreads, the report argues that it is likely large for big customers and narrower for smaller ones, and suggests an elasticity in the range of –1.5 to –0.5.¹⁸

17. See Ministry of Finance, Finland (2001), particularly, pp. 47-50.

18. An elasticity is the percentage change in demand divided by the percentage change in prices. The latter is directly affected by a securities transaction tax.

— Figure VIII.2. Summary of global transactions in foreign exchange markets —
Average daily turnover



Note: Adjusted for local and cross-border double counting (“net-net”). Includes estimates for gaps in reporting.

Source: BIS, Triennial Central Bank Survey, Foreign exchange and derivatives market activity in 2001, March 2002.

- Even in a best-case scenario – using the lower elasticity and assuming a tax rate of 0.5 per cent, with initial transaction costs of 0.10 per cent – the drop in the tax base would be quite large, approximately 66 per cent. If the elasticity were higher and the initial transaction costs lower, then the reduction in the base would be dramatic.

Such calculations suggest that the revenue take could be significantly reduced by the tax, although it would remain substantial.

Another question is whether or not a “Tobin tax” is the best way to finance overseas development assistance. From an economic perspective, the use of earmarked taxes may not be the most efficient option. Rather, provided that such assistance is worthwhile, it would be best to finance it in a way that implies as little distortion and as much certainty about revenues as possible. This is unlikely to be achieved through a “Tobin tax”. Its popular appeal may nonetheless reflect a view that it would be paid by relatively well-to-do taxpayers. This argument rests on the confusion that a tax is being paid by those on whom it is levied. In practice, taxes are being shifted through changes in prices and wages and the ultimate payer of the tax may be a quite different person from the one handing over the tax revenue. In the case of a “Tobin tax”, its final incidence is not very clear but it cannot be excluded that some of those paying the tax would be the same developing countries that it was meant to help. Finally, the linking of a “Tobin tax” to overseas development assistance may divert political attention away from the issue of whether such transfers should be increased.

Earmarking the revenues for aid is likely not efficient

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