

Abstract

Both domestic and international tourism are a major source of service export receipts for many countries worldwide, and is also increasingly important in Taiwan. One of the three leading tourism source countries for Taiwan is the Republic of Korea, which is a source of short haul tourism. Daily data from 1 January 1990 to 31 December 2008 are used to model the Korean Won / New Taiwan \$ exchange rate and tourist arrivals from Korea to Taiwan, as well as their associated volatility. The sample period includes the Asian economic and financial crises in 1997, and a significant part of the global financial crisis of 2008-09. Inclusion of the exchange rate allows approximate daily price effects on Korean tourism arrivals to Taiwan to be captured. The Heterogeneous Autoregressive (HAR) model is used to capture long memory properties in exchange rates and Korean tourist arrivals, to test whether alternative estimates of conditional volatility are sensitive to the long memory in the conditional mean, and to examine asymmetry and leverage in volatility. The empirical results show that the conditional volatility estimates are not sensitive to the long memory nature of the conditional mean specifications. The QMLE for the GARCH(1,1), GJR(1,1) and EGARCH(1,1) models for Korean tourist arrivals to Taiwan and the Korean Won / New Taiwan \$ exchange rate are statistically adequate and have sensible interpretations. Asymmetry (though not leverage) is found for several alternative HAR models.

Keywords: Korean tourist arrivals, exchange rates, approximate price effects, global financial crisis, Asian economic and financial crises, GARCH, GJR, EGARCH, HAR, long memory, asymmetry, leverage.

JEL Classifications: C22, F31, G18, G32.