

The real exchange rate determination : An empirical investigation

Abstract

This study examines the real exchange rate determination in Asian economies. The methods show that the real exchange rate and terms of trade can be jointly determined. Productivity differential, terms of trade, the real oil price, and reserve differential are found to be important in the real exchange rate determination in the long run. However, the significant impacts of those variables on the real exchange rate determination are different across economies. Moreover, the results of the generalised forecast error variance decompositions show that the important contributors of the real exchange rate are different across economies.