Predicting Exchange Rates

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1. INTRODUCTION

2. THEORETICAL FRAMEWORK

Research on equilibrium in foreign exchange markets is a well developed component of classical economic theory. Classical models rest on two fundamental ideas. The first is that foreign exchange markets achieve equilibrium when the rate of return on deposits is the same across all currencies. The idea that investors will be indifferent between bank deposits denominated in different currencies is known as interest rate parity. The second is that the price of goods will be the same when valued in different currencies. The notion that a basket of goods should cost the same in all currencies is known as purchasing power parity.

3. DATA

4. RESULTS

5. CONCLUSION

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