This paper studies the dynamic pattern of real exchange rates in a currency substitution model with optimized microfoundation. It shows that when Marshall-Lerner condition holds, the adjustment of real exchange rates has a unique saddle path. On the contrary, when the Marshall-Lerner condition does not hold, the adjustment of real exchange rates may be either unstable or indeterminate. Under the situation where the Marshall-Lerner condition fails, if the foreign monetary growth rate is zero, the dynamic system will be unstable. Moreover, if the foreign monetary growth rate is positive, and the currency substitution elasticity is equal to the cost elasticity of holding currency, then the dynamic system is unstable while the currency substitution elasticity is smaller than a certain constant value, and the adjustment of real exchange rates is indeterminate while the currency substitution elasticity is larger. Finally, if the currency substitution elasticity is unequal to the cost elasticity of holding currency, the relative magnitude between currency substitution elasticities and trade elasticities determines critically the dynamic properties of real exchange rates.