

Outline

**Empirical Exchange Rate Determination:
Estimation, Inference and Prediction**

by Menzie D. Chinn

This monograph focuses on recent advances in empirical macroeconomic exchange rate models, filling a gap between surveys such as Frankel and Rose (1995) and Froot and Rogoff (1995). It will be more focused on econometric issues than some other treatments such as Isard (1995) and Sarno and Taylor (2002). Some theoretical detail will be provided to illustrate the empirical implications, and then discuss at length the corresponding econometric analysis.

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Chapter 1: Introduction/Overview

- Definitions

Chapter 2: Monetary and Portfolio Balance Models with *ad hoc* equations.

- Monetary models (Mark) - Portfolio balance models (cumulative current account)
- Monetary models w/o long run PPP (Chinn "On the Won", "Paper pushers")
- Single equation empirical evidence (including cointegration, panel cointegration)

Chapter 3: Interest Rates and Exchange Rates

- UIP and forward rates: the short and long run implications - Chinn and Meredith; Clarida & Taylor.

Chapter 4: Quasi-structural approaches

- Structural VARs (Clarida-Gali; Lothian-Taylor; Eichenbaum-Evans; Marsh-MacDonald; Lee-Chinn)

Chapter 5: Real Models of Real Exchange Rates

- PPP (basic; fractional integration; nonlinear reversion)
- Balassa-Samuelson
- Challenge to BS approach: Engel variance decomposition
- Box: PPP deviations
- Terms of Trade models (specialized economies)
- Differentiated products models (Dornbusch-Fisher-Samuelson)
- Application: the Euro?

Chapter 6: Modeling Equilibrium Real Exchange Rates.

- Fundamental Equilibrium Exchange Rates and IMF Macroeconomic Approach
- Behavioral Equilibrium Exchange Rates
- The "Penn Effect"

Chapter 7: Evaluations of some recent model (Cheung, Chinn and Garcia Pascual)

Chapter 8: New Developments

- Micro/macro structure (Evans and Lyons; Chinn and Moore)
- Taylor rule models (Engel-West, Papell et al., Chinn)