The analysis of equilibrium real exchange rate on return of foreign deposit :

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E-mail: 354514@ mail.dyu.edu.tw

ABSTRACT

In recent years, Australian Dollars has drawn great interest to domestic foreign deposit investors for its high deposit interest rate and strong currency appreciation. However, the return of foreign currency deposit is greatly affected by exchange rate fluctuation; therefore this research believes the importance of study on forecasting exchange rate between two countries. This research is based on Equilibrium Real Exchange Rate Model found by Elbadawi(1994), and aims to estimate the Real Effective Exchange Rate of both Taiwan and Australia. Furthermore, to build ARIMA Model to forecast the future index of Real Effective Exchange Rate for both Taiwan and Australia. The forecasting result is then used to study effect of exchange rate fluctuation on return of foreign currency deposits by analyzing the relative appreciation between these two. It also provides the reference of best investment period in AUD Term Deposits. The finding of this research shows that the actual exchange rate generally corresponds to both Taiwan and Australia's equilibrium real effective exchange rate. Both Taiwan and Australia's real effective exchange rate have shown convergent ability in Error Correction Model. The result of this research suggests that AUD has been overvalued relative to NTD, and therefore NTD shows trend to appreciate in future. Within the forecasting period, the result of the research shows that nine months AUD term deposit has the highest risk of exchange rate fluctuation, and the three months AUD term deposit has the least risk. The result of the forecast also suggests that within the forecast period, the investment loss caused by exchange rate fluctuation should be greater than the interest return on AUD term deposit.

Keywords : Equilibrium Real Exchange Rate　Equilibrium Real Effective Exchange Rate Index　Autoregressive Integrated Moving Average　ARIMA

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