

The Re-examination of Interest Rate Parity : The Application of Wild Bootstrap Method

蔡孟易、林福來

E-mail: 9511136@mail.dyu.edu.tw

ABSTRACT

In this paper, we employed uncovered interest rate parity theory to test if American, United Kingdom, Taiwan, Japan, Canada, Euro-dollar market have arbitrage profits. In our empirical modals, we use Cointegration test to fine the long-run relationships and Vector Error Correction model to investigate the long-run equilibrium and short-term dynamic adjusted. In order to avoid variance heteroskedasticity, we try to use wild bootstrap method from Wu(1986) and set up empirical confidence interval for Cointegration and Vector Error Correction model. Finally, the results show that uncovered interest rate parity is not existed. It means that American, United Kingdom, Taiwan, Japan, Canada, Euro-dollar market have arbitrage profits.

Keywords : uncovered interest rate parity theory ; Cointegration ; Vector Error Correction model ; wild bootstrap method ; empirical modal

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