

Exchange rate and interest rate differential in g7 economies

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Abstrak

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We offer new insights on the dynamics of the exchange rate interest rate differential for the case of G7 economies. We show that the nexus is better considered using an asymmetric model, as suggested by a host of previous studies. In addition, we find the role of accounting for structural breaks to be prominent. We also show differences in the nexus between euro and non-euro G7 countries, suggesting heterogeneous monetary policies. Thus, we document the strongest evidence for the sticky price hypothesis in Japan and lesser evidence in the euro countries and the United Kingdom, with Canada consistently revealing evidence for the flexible price hypothesis.