

CONTENTS

	Page No.
ACKNOWLEDGMENT	a
ABSTRACT	d
TITLE OF CONTENTS	i
LIST OF TABLES	viii
LIST OF FIGURES	x
LIST OF APPENDICES	xiii
ABBREVIATIONS	xiv
NOTATION	xvi
<hr/>	
CHAPTER – 1 INTRODUCTION	1 - 27
<hr/>	
1.1 Introduction:	
1.2 Uncovered Interest Rate Arbitrage Parity (UIRP) Doctrine	
1.3 Covered Interest Arbitrage Parity (CIAP) Doctrine	
1.4 Forward Rate is the Unbiased Predictor of Future Spot Exchange Rate	
1.5 Role of forecasting in UIRP	
1.6 Random walk property of Exchange Rate and ‘Foreign Exchange Market Efficiency Hypothesis’ (FEMH)	
1.7 Direction of Causality: What causes what?	
1.8 Exchange Rate and Interest rate: Relations in Exchange Rate Theories	
1.8.1 Purchasing Power Parity (PPP) Theory	
1.8.2 Monetary Theory of Exchange Rate (MATR)	
1.8.3 MUNDELL – FLEMING MODEL:	
1.8.4 UNCOVERED INTEREST RATE ARBITRAGE PARITY DOCTRINE:	
1.8.5 DORNBUSCH MODEL OF EXCHANGE RATE OVERSHOOTING	
1.9 RESOLUTIONS FROM THE ANALYSIS	

1.10 Relation between spot exchange rate (s_t) and domestic interest rate in Indian economy over the period (22nd September 2011 to 7th August 2012): Relevance of the Present Study.

1.11 Some Relevant Issues

1.12 Objective of Study

1.13 Chapters of the Study

CHAPTER – 2 REVIEW OF LITERATURE

28 - 41

2.1 Introduction

2.2 Existing Research Gap and Relevance of the Present Study

CHAPTER – 3 DATA AND METHODOLOGY

42 - 52

3.1 Nature, Period of Dataset, Transformation and Sources

3.1. A Determination of Forward Rates from Forward Premium

3.1. B Rationality behind Log Transformation (Requirement for Jensen's Inequality)

3.2 METHODOLOGICAL ISSUE

3.2.1 Forecast Model Estimation

3.2.2 Minimum Mean-Square-Error Forecasts

3.2.3 Computation of a Forecast

3.2.4 Isolating Trend component and Cyclical Component of a Time - series: Inconsistencies in Econometric study

3.2.4. (A) NELSON-BEVERIDGE DECOMPOSITION:

ALTERNATIVE METHODOLOGY

CHAPTER – 4 STATIONARY AND INTEGRABILITY OF TIME SERIES

DATA ON MACROECONOMIC VARIABLES UNDER STUDY 53 - 80

4.1 Introduction

4.2 STATIONARITY AND INTEGRABILITY OF WEEKLY SPOT

EXCHANGE RATE (s'_t).

4.2.1 Trend Analysis

4.2.2 Test of Stationarity: Augmented Dicky-Fuller (ADF) Unit Root Test

4.2.3 Findings from the ADF Tests (Table 4.1)

4.2.4 Integrability of Weekly Spot Rate (s'_t) Series Studied through the ADF Unit Root Test.

4.2.5 Findings from the Table 4.2

4.2.6 Correlogram study on 'stationarity' and 'Integrability' of (s'_t)

4.2.7 Findings From Figures 4.3 and 4.4:

4.3 STATIONARITY AND INTEGRABILITY OF MONTHLY SPOT EXCHANGE RATE (s_t).

4.3.1 Time Plot of Monthly Spot Exchange Rate (s_t)

4.3.2 Findings from Figures 4.5 and 4.6.

4.3.3 Test of 'stationarity' and 'Integrability' of the series (s_t): ADF Unit Root Test.

4.3.4 Findings from the Table 4.3 and 4.4

4.3.5 Correlogram of (s_t): Study on Stationarity and Integrability.

4.3.6 Findings from the correlograms in Figures 4.7 and 4.8

4.4 STATIONARITY AND INTEGRABILITY OF MONTHLY FORWARD EXCHANGE RATE (F_t) SERIES CORRESPONDING TO MONTHLY EXCHANGE RATE SERIES.

4.4.1 Graphical study

4.4.2 ADF Unit Root Test on Series (F_t)

4.4.3 Findings from Tables 4.5 and 4.6

4.4.4 Correlogram Study on Stationary and Integrability of One Month Forward Exchange Rate (F_t).

4.4.5 Findings from Figures 4.11 and 4.12

4.5 STATIONARY AND INTEGRABILITY OF SERIES ON PERCENTAGE CHANGE IN DAILY DOMESTIC INTEREST RATE (I_t).

4.5.1 Graphical Analysis

- 4.5.2 Stationarity and Integrability of (I_t): ADF Unit Root Test
- 4.5.3 Findings from the table 4.7 and 4.8
- 4.5.4 Correlogram Study on Stationarity and Integrability of Interest Rate (I_t) Series.
- 4.5.5 Findings from the Correlograms in Figures 4.15 and 4.16
- 4.6 STATIONARITY AND INTEGRABILITY OF ONE MONTH FORWARD RATE SERIES (Fw_t) CORRESPONDING TO WEEKLY EXCHANGE RATE SERIES.
- 4.6.1 Trend Analysis
- 4.6.2 Test of Stationarity: Augmented Dicky-Fullar (ADF) Unit Root Test on (Fw_t)
- 4.6.3 Findings from the ADF Tests (Table 4.9)
- 4.6.4 Integrability of First Differenced Forward Exchange Rate (Fw_t) Series Studied through the ADF Unit Root Test.
- 4.6.5 Findings from the Table 4.10
- 4.6.6 Correlogram Study on ‘Stationarity’ and ‘Integrability’ of (Fw_t)
- 4.6.7 Findings From Figures 4.19 and 4.20
- 4.7 STATIONARITY AND INTEGRABILITY OF DAILY SPOT EXCHANGR RATE (E_t).
- 4.7.1 Trend Analysis
- 4.7.2 Correlogram Study
- 4.7.3 Augmented Dicky Fullar (ADF) Unit Root Tests on E_t
- 4.8 Summary of the Findings in Chapter 4

CHAPTER – 5 RELATIONSHIPS BETWEEN EXCHANGE RATE (RUPEE/DOLLAR) AND INTEREST RATE IN INDIAN ECONOMY: A STUDY OF COINTEGRATION AND VERIFICATION OF (UIRAP) DOCTRINE.

81 - 89

- 5.1 Introduction
- 5.2 Study of Cointegration between rupee/dollar Exchange rate (E_t) and Interest Rate Series (I_t)
 - 5.2.1 Findings From the Table 5.1

- 5.2.2 Overview of the Findings of Cointegration Study
- 5.2.3 Economic Implication of the Findings of Cointegration study
- 5.3 Cointegrating Equation for Exchange Rate and Interest Rate.
 - 5.3.1 Characteristics of the Cointegrating Equation (5.1)
- 5.4 VEC Model for E_t and I_t : Study of the Short-run Dynamics of Relationship between s_t and I_t
 - 5.4.1 Findings from the VECM Estimation for $D(E_t)$
 - 5.4.2 Findings from the VECM Estimation for $D(I_t)$ in the Table 5.4
 - 5.4.3 Overview of Findings from the Estimated VEC Model
- 5.5 Summary of the Chapter 5

CHAPTER – 6 COVERED INTEREST RATE ARBITRAGE PARITY (CIRAP) AND ‘EFFICIENCY’ OF FOREIGN EXCHANGE (RUPEE/DOLLAR) MARKET IN INDIA – FOR FUTURE STUDY WITH FORWARD RATES AND (ARIMA) FORECASTS ON THE BASIS OF WEEKLY EXCHANGE RATE DATASET.

90 - 105

- 6.1 Introduction
- 6.2 Relevant Theoretical Issues: Resolutions from UIRAP Doctrine
 - 6.2.1 Relation between tFw_{t+n} and ts'_{t+n}^e
 - 6.2.2 Relation between ts'_{t+n}^e and s'_{t+n}
 - 6.2.3 Risk Premium & Forward Market Efficiency
- 6.3 Objective of study
- 6.4 Data: Nature, Period of dataset, Transformation and Sources
- 6.5 ARIMA Forecast For one - period ahead Future Exchange Rate
- 6.6 Cointegration Between s'_{t+4} and s'_{t+4}^e Series
- 6.7 Relation Between Forward Rate (tFw_{t+4}) and the Expected Spot Rate (s'_{t+4}^e)
- 6.8 Relation Between Forward Rate (tFw_{t+4}) Series and Spot Rate (s'_{t+4}) Series
- 6.9 Further Test of Efficient Market Hypothesis for Indian Foreign

Exchange Market

- 6.10 Summary of the Chapter 6
- 6.11 Conclusion of the Study in Chapter 6

CHAPTER – 7 COVERED INTEREST RATE ARBITRAGE PARITY AND EFFICIENCY OF (RUPEE/DOLLAR) FOREIGN EXCHANGE MARKET IN INDIA – STUDY WITH FORWARD RATES AND ARIMA FORECASTS ON THE BASIS OF MONTHLY EXCHANGE RATE DATA SET.

106 - 121

- 7.1 Introduction
- 7.2 ARIMA Forecast For one - period ahead Future Exchange Rate
- 7.3 Cointegration Between s_{t+1} and s_{t+1}^e
- 7.4 Relation Between Forward Rate (tF_{t+1}) and the Expected Spot Rate (s_{t+1}^e)
- 7.5 Relation Between Forward Rate (tF_{t+1}) Series and Spot Rate (s_{t+1}) Series
 - 7.5.1 Further Study on Cointegrability between tF_{t+1} and s_{t+1}
 - 7.5.2 Findings From Table 7.5
 - 7.5.3 Findings from the Equation (7.8)
- 7.6 Further Test of Efficient Market Hypothesis for Indian Foreign Exchange Market
- 7.7 Summary of the Study in Chapter 7
- 7.8 Conclusion of the Study in Chapter 7

CHAPTER – 8 COVERED INTEREST RATE ARBITRAGE AND THE LONG-RUN RELATION BETWEEN SPOT AND FORWARD RATES IN THE FOREIGN EXCHANGE (RUPEE/DOLLAR) MARKET IN INDIA – FURTHER STUDY ON MARKET EFFICIENCY WITH ARIMA (p, d, q) FORECASTING.

122 - 146

- 8.1 Introduction
- 8.2 Objective of Study
- 8.3 Theoretical issues

- 8.4 ARIMA Forecast For one - period ahead Future Exchange Rate
- 8.5 Graphical Analysis
- 8.6 Cointegration between Current Spot rate s_t and Lagged Forward rate $(t - 1)F_t$
- 8.7 VEC Model for $(t - 1)F_t$ and (s_t) : Stability of the Long-run Relation
 - 8.7.1 Findings and Explanations
- 8.8 Intervention Analysis through the Study of Impulse Response Functions and Variance Decompositions of Forecast Errors
 - 8.8.1 Impulse Response Functions Study
 - 8.8.2 Variance Decomposition Study
- 8.9 Relation Between Current Spot Rate (s_t) and Contemporaneously Formed One-Period Ahead Forward Rate (tF_{t+1})
- 8.10 VEC Model for tF_{t+1} ans s_t
 - 8.10.1 Findings and Explanations
- 8.11 Summary of the study in Chapter 8
- 8.12 Conclusions and Inferences of the Study in Chapter 8.
 - Appendix (A)

CHAPTER – 9 SUMMARIES, CONCLUSIONS AND POLICY IMPLICATIONS 147 - 156

- 9.1 Summary of the Study
- 9.2 Conclusions of the study
- 9.3 Public Policy Implications
- 9.4 Limitation of the Study

REFERENCES 157 - 163

INDEX 164 - 165