

# **Testing monetary exchange rate models with cointegrated VAR model**

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## **Abstract**

Monetary exchange rate models assert there is long run equilibrium relationship between the nominal exchange rate and the monetary fundamentals. These models are important theoretical tools of international macroeconomics even though their empirical validity is doubtful. In the following we try to find empirical evidence for the reduced form of the monetary exchange rate models applying cointegrated VAR models on the exchange rate between USD and the Japanese yen, the Danish krone and the Canadian dollar respectively. Two empirical models for each exchange rate were estimated for two different periods: until 2012 and 1997. We had two goals, one is to estimate the models as long time horizon during the modern float as possible the other is to compare our results to the results of the early panel technique. We found moderate empirical support for the monetary exchange rate models.