

Master Thesis:

Evaluation of China's FOREX Policy: Equilibrium Exchange Rate Perspective.

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Abstract

This thesis investigated China's foreign exchange policy from the equilibrium exchange rate perspective, using the Fundamental Equilibrium Exchange Rate model with multiregional dimension. The core question is whether Renminbi is misaligned (over- or undervalued) from 2001 to 2017. The result indicated that the bilateral nominal exchange rate of Renminbi against the US dollar was undervalued from 2002 to 2013, reaching a peak of 34.2% in 2007. In the rest of the years, it was overvalued slightly against the US dollar. As to the real effective exchange rate (REER) of Renminbi, it was overvalued in the first three years of the 2000s, then went through the period of undervaluation of 9 years, with a smaller degree compared with the bilateral exchange rate. It is shown that from 2013 the REER of Renminbi had been overvalued for several years until it was undervalued again in 2017 by 2%.

Keywords

FEER, Renminbi, exchange rate misalignment, multinational model, real effective exchange rate