Abstract

This bachelor's thesis aims to specify models for estimating the equilibrium exchange rate of the Czech koruna against the euro and to examine the properties of its misalignment as derived from these models. In this study, the single-equation Behavioral Equilibrium Exchange Rate approach is employed, utilizing the Error Correction Model. Particular attention is given to the Real Interest Rate Differential fundamental, which, according to the test results, is identified as a statistically significant variable influencing the exchange rate movements. The thesis also investigates the impact of changing the exchange rate deflator on the resulting model estimates and the misalignment. It is found that when the nominal exchange rate is deflated using consumer prices, the estimated misalignment is higher and exhibits greater volatility over most of the sample period than when producer prices are used. These findings contribute to the refinement of the models used to estimate the exchange rate of the Czech koruna, which, in turn, has important implications for the formulation of monetary policy.