

## **Abstract**

The object of this thesis is to estimate the equilibrium exchange rate of the Chinese currency and to determine how much the actual exchange rate deviates from the equilibrium value. Throughout the China's central planned period the currency was highly overvalued, but economic reforms have brought it closer to the equilibrium. At the present time, the common perception is that the currency is significantly undervalued. We employ the fundamental equilibrium exchange rate (FEER), which enables to measure overvaluation or undervaluation of the actual real effective exchange rate. The basic requirements for the calculating the FEER are estimated trade equations, a potential output for China and its main foreign partners and sustainable capital flows. Trade equations are estimated by the Engle-Granger two step estimator and the Johansen methodology. The modified version of trade equations is estimated by ordinary least squares. The dataset used in this study is composed of annual observations over the period 1981 and 2010.