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Uncovered Interest Parity and tha USD/COP Exchange Rate

Borrador número 227 Tenga en cuenta
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This paper tests the uncovered interest parity (UIP) hypothesis for the USD/COP exchange rate, using weekly data for the period from January 1994, when Colombia introduced its crawling band exchange rate regime, to August 2002. The study yields several interesting results. For the period October 1996 to August 2002 the UIP hypothesis receives relatively strong support, even if this is weakened towards the end of the period. This is in stark contrast with the almost unanimous rejection of UIP shown by the literature. UIP is, furthermore, tested for a duration of time of 3, 6 and 12 months, and in line with other studies, the validity of the UIP relationship increases with the term of the investment. However, we suspect that the strong support for UIP might be a temporary occurrence due to the fact that Colombia during this period went through a considerable macroeconomic transition, where a high rate of inflation were brought down from double-digit to single-digit levels.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/es/uncovered-interest-parity-and-tha-usdcop-exchange-rate