

Interdependence in Real Effective Exchange Rates: Evidence from the Dynamic Hierarchical Factor Model

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Abstract

We analyze and quantify the interdependence of real effective exchange rates while considering the regional location of countries. More specifically, using the dynamic hierarchical factor model, we decompose exchange rate movements into worldwide and two regional factors as well as country-specific elements. Then we provide evidence that a substantial proportion of variation in the exchange rates is country-specific.

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