

Seminar 8

Problem 1

Uncovered Interest Rate Parity (UIRP)

Purchasing Power Parity (PPP)

Fisher Hypothesis

Prove that:

- If the parity conditions all hold simultaneously, real interest rates are equal across countries.
- If uncovered interest rate parity and PPP hold, the nominal interest rate differential between the United Kingdom and Switzerland reflects only an expected inflation differential (real interest rates are equal).
- Inflation is the fundamental reason for expected GBP depreciation

Spot GBP/CHF: 2.50

Forward GBP/CHF: 2.4524

$IR_{\text{nominal (GBP)}} = 5\%$

$IR_{\text{nominal (CHF)}} = 3\%$

Expected inflation $_{\text{GBP}} = 2.94\%$

Expected inflation $_{\text{CHF}} = 0.98\%$

Problem 2

- I. Please, go to Refinitiv and search for the CNB **FX reserves** (aCZFCRES)
 - a) identify the trend from 2013 to 2017
 - b) identify the trend in 2022.
- II. Please, go to the Refinitiv and identify the EUR/CZK price trend in the same time periods:

- a) identify the trend from 2013 to 2017
- b) identify the trend in 2022.

- III. Please identify and match the above periods 2013-2017 and 2022 with economic events
- IV. What kind of monetary policy with respect to the economic events is CNB performing?
- V. Think about the Czech crown (CZK) volatility before and after FX interventions?

Note: Read more about FX interventions in 2022:

<https://www.reuters.com/business/finance/czech-central-banks-fx-reserves-drop-1513-bln-euros-june-2022-07-08/>

Read about interventions in 2013-2017

In Czech: <https://www.cnb.cz/cs/casto-kladene-dotazy/Co-byl-kurzovy-zavazek/>

In English: https://www.cnb.cz/export/sites/cnb/en/public/.galleries/media_service/conferences/speeches/download/mora_20171006_aci.pdf