

## **Is there an empirical link between the dollar price of the euro and the monetary fundamentals?**

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This paper examines the empirical link between the dollar exchange rate of the euro and the monetary fundamentals. The exchange rate is found to be cointegrated with money and income differentials, while the homogeneity restrictions are supported by the data. The weak form restrictions of the present-value model of the foreign exchange market are not rejected by the data, but the most stringent restrictions are strongly rejected. An estimated error-correction model explains a substantial part of the short-run exchange rate volatility and outperforms the random walk forecasts.

Keywords: dollar price of euro, monetary fundamentals, present-value model, cointegration, VAR, error-correction model  
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