

## **A Simultaneous Model of the Swedish Krona, the US Dollar and the Euro**

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In this paper we simultaneously estimate the real exchange rates between the Swedish Krona, the US Dollar and the Euro. A prime candidate for explaining the exchange rate movements is relative potential output. Since this variable is unobservable, cyclical and potential output are estimated in an unobserved components framework together with a Phillips curve.

The exchange rate results are in line with theory. Increases in relative potential output and the terms of trade strengthen the exchange rate, while a relative increase of the fraction of middle-aged in the population and of budget deficits depreciate the exchange rate. The estimates suggest that the recent deterioration of the relative budget situation for the US versus Europe is a prime candidate for explaining the USD/EUR exchange rate change lately.

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