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EXAMINING MONETARY APPROACH TO BALANCE OF PAYMENTS AND REAL EFFECTIVE EXCHANGE RATE FORECASTING WITH REFERENCE TO INDIAN ECONOMY.

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Abstract

The monetary approach to the balance of payments explains the elimination of payments disequilibrium in terms of factors bringing the demand and supply into equality. The main objective of this research paper is to examine the economic and statistical validity of the monetary approach to balance of payment with reference to Indian economy for the period 1994- 2012. Under the estimated function domestic credit and international reserves are taken as an independent variable, as they are the most important in monetary approach to balance of payment and real effective exchange rate is taken as a dependent variable. However the statistical validity is questionable. Hence, forecasting real effective exchange rate is questionable based on the estimated model, therefore an alternate univariate time series forecasting is proposed under these circumstances.

Keywords

Monetary approach of balance of payments, International reserves, Domestic credit, Forecasting, Univariate time series.