Exchange Rate Determination in Asia

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The main aim of this paper is to validate the Sticky Price Monetary Model in India and China. This aim will be achieved by the investigation of the major determinants of exchange rate in these two economies. One of the main reasons of conducting this research is because the last 25 years were crucial years in developing Asia (especially India and China) after Globalisation. Another reason is because exchange rate is an element of attracting Foreign Direct Investment which has started in India in 1991 and in China mainly after 1980. In this study, we take exchange rate as the dependant variable and money supply, interest rate, Consumer price index and GDP as independent variables based on the sticky price monetary model. A Quantitative Method with the help of regression is implemented for data analysis and to obtain the results. The data from year 1995 to year 2020 for India and China has been collected from the World Bank database. This study will help to understand and identify the major determinants of exchange rate behaviour in the two countries. The empirical results indicate that for the case of China, money supply, GDP, and CPI are found to be significant in the model. The coefficient of money supply and CPI are positive while GDP found to be negative. For the case of India, interest rate, money supply and GDP found to be significant. The coefficient of interest rate and money supply are positive, and GDP is negative. The GDP impact in both economies is negative, an increase in GDP results in a decrease in the exchange rate. More specifically, when GDP increases, the value of the local currency will increase as locals will pay less to get the same amount of foreign currency ($US). These findings will have important information for the policy makers.

Keywords*: *CPI, Exchange Rate, GDP, Interest Rate, Money Supply