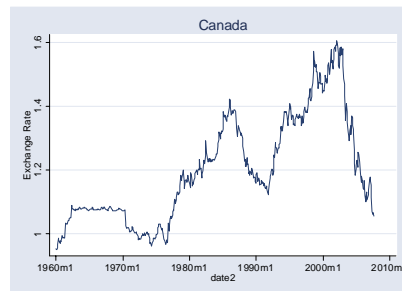
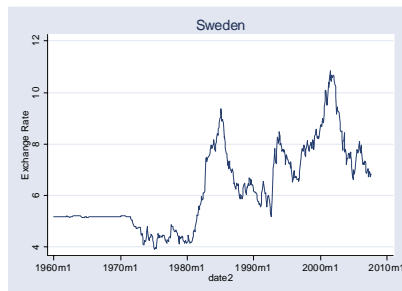
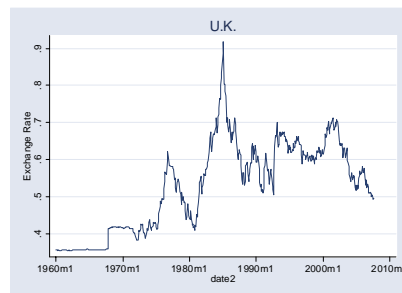


Ch. 14: Exchange Rates and the Foreign Exchange Market: An Asset Approach



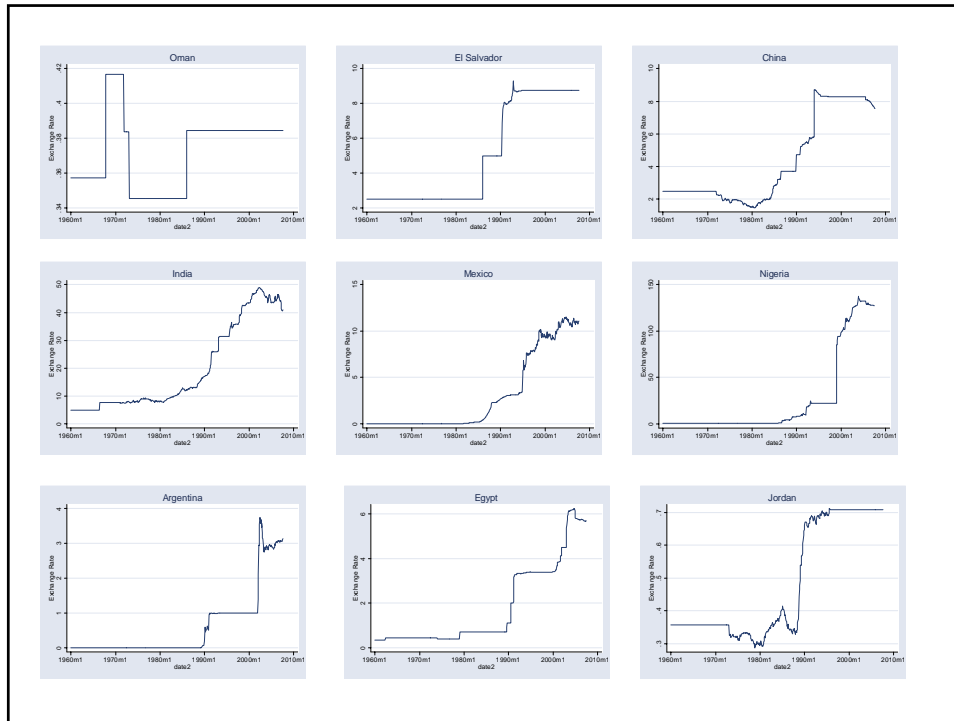


Table 4: Today's Dollar/Euro Exchange Rate and the Expected Dollar Return on Euro Deposits When $E_{\$/\epsilon}^e = \1.05 per Euro

Today's Dollar/Euro Exchange Rate	Interest Rate on Euro Deposits	Expected Dollar Depreciation Rate against Euro	Expected Dollar Return on Euro Deposits
$E_{\$/\epsilon}$	R_{ϵ}	$\frac{1.05 - E_{\$/\epsilon}}{E_{\$/\epsilon}}$	$R_{\epsilon} + \frac{1.05 - E_{\$/\epsilon}}{E_{\$/\epsilon}}$
1.07	0.05	-0.019	0.031
1.05	0.05	0.00	0.05
1.03	0.05	0.019	0.069
1.02	0.05	0.029	0.079
1.00	0.05	0.05	0.10

Figure 3: The Relation Between the Current Dollar/Euro Exchange Rate and the Expected Dollar Return on Euro Deposits

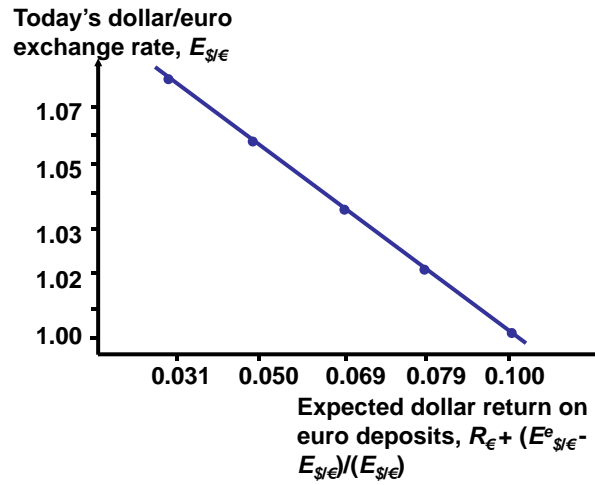


Figure 4: Determination of the Equilibrium Dollar/Euro Exchange Rate

